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**Sick Industry —
A Public Policy Perspective**

**The Economic Crises in the
Country and the Actions it calls for**

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EDITORIAL - SOME HIGHLIGHTS

I. General Economic Scene

State

The State (final) budget 1991-92

The state government introduced the final 1991-92 budget in the legislature at the start of September. At a glance, Budget details are summarised below :

Items	1989-90 Accounts	1990-91 Budget Estimate	1990-91 Revised Estimate	1991-92 Budget Estimate
I Consolidated Fund			(in crores)	
Revenue receipts	4251.57	4397.47	4975.65	5347.34
Expenditure met from revenue accounts	4730 79	4814.09	5295.16	6249.83
Surplus or deficit on revenue account	(—) 479.22	(—) 416.63	(—) 319.51	(—) 902.49
Capital Receipts	2328.36	1773.59	2119.95	2110.56
Expenditure met from capital including loans advances (net)	2416 52	1764.27	2096.42	1896.00
Deficit or surplus on Capital Account	(—) 88.16	(+) 9 32	(+) 23.53	(+) 214.56
Total Consolidated Fund (net)	(—) 567.38	(—) 407.31	(—) 295.98	(—) 687.93
II Contingency Fund (net)	(+) 250.00			
III Public Account (net)	(+) 326.77	(+) 57.95	(+) 90.70	(+) 110.52
Total transactions (I + II + III)	(+) 9.39	(—) 349.35	(—) 205.26	(—) 577.41
Opening Balance	*(—) 12.05	(—) 160 74	**(—) 2.66	(—) 207.94
Closing Balance	**(—) 2.66	(—) 510.10	(—) 207.94	***(—) 785.35

*Taking into account the adjusted closing cash balance for 1988-89 with Reserve Bank of India the adjusted opening cash balance for 1989-90 will be Rs (—) 7919 crores.

.* The adjusted closing balance for 1989-90 with RBI gives the adjusted opening cash balance for 1990-91 of Rs (—)153.23 crores.

***After taking into account various economy and additional resource mobilisation measures the net deficit will be Rs. 575 35 crores.

The budget projects a total deficit in 1991-92 at Rs. 738.38 crores, including the closing deficit of Rs. 204.94 crores at the end of 1990-91. The Revenue receipts for the year are Rs 5347.34 crores against Rs..4791.79 crores set forth in the interim budget. The revenue expenditure for 1991-92 is set at Rs. 6249.53 crores (against Rs. 5956.03 crores in the interim budget). While total deficit (including the closing deficit) is shown at Rs. 785.35 crores, taking into account various economy measures to be set forth later and additional resources to be mobilised the deficit is finally reduced to Rs. 575.35 crores, and taking into account the net effect of transactions in other accounts, the overall deficit is at 577.41 crores. This involves tax and other rationalisation measures in the balance 6 months this year. The tax measures in the budget are : a) increasing sales tax on diesel from 14 to 16 per cent, on paper and paper board from 4 to 6 per cent and on soap from 8 to 10 per cent, b) a new tax of 2 per cent on steel scrap sales to rerolling mills, c) a new sales tax on rubber, d) rationalising the surcharge uniformly at 15 per cent, delinking entry tax from general sales tax and specifying the rate of tax in the entry tax Act itself, e) imposing a 4 per cent levy on the sale price of energy for all consumers other than domestic connections including hut connections, agricultural consumers and self generators, f) revising the duty on IMFL from Rs. 60 to Rs. 70 per litre, enchancing the sales tax on IMFL from 20 to 25 per cent, g) extending urban land tax to all special grade and selection grade municipalities, h) raising the motor vehicles tax, i) tax on 2 wheelers above 50 cc upto to 170 cc rising from Rs. 90 to Rs. 150 a year and (less between) 170 and 300 cc from Rs. 90 to Rs. 200, those exceeding 300 cc from Rs. 100 to Rs. 300 per annum, tax on vehicles with a capacity exceeding 700, 150 kg increase from Rs. 1050 to Rs 1500, varying for vehicles upto 3000 kg, on whether imported, or owner based or others. The rationalisations and exemptions include : a) tax on gold bullion reduced from 2 to 1 per cent and tax on silver articles reduced from 4 to 2 per cent and gold jewellery from 8 to 2 per cent, b) a uniform rate of 6 per cent on all drugs and medicines against the current 8 per cent, with 6 life saving drugs completely exempted, c) the sales tax on fertilisers and pesticides reduced from 3.5 per cent to 0.3 per cent, d) trailer spares from 15 to 4 per cent, for fully built vehicles from 15 to 7 per cent and on 3 wheelers from 15 to 8 per cent, e) motor cycles of 50 cc and below exempted from MV tax, f) full tax exemption for dry leaves which poor rural woman stitch to make a living, besides rickshaws without motors, and bullock carts, g) tax on tanneries, clinics, tamarind and soaps reduced from 6 to 4 per cent. Together with the economy measures which will save Rs. 140 crores and the additional taxes (and exemptions) will mobilise Rs. 70 crores this year and Rs. 160 crores in a full year. The new levies will yield Rs. 140 crores in a full year —excise and sales tax rationalisation, additional Rs. 40 crores and Rs. 20 crores, motor vehicles Rs. 30 crores, urban land Rs. 10 crores. The various concessions will cost the government Rs. 17.45 crores in all, Rs. 10 crores in ST and 7.45 crores in other taxes. Hence the net yield from taxes will be Rs. 70 crores. Among the projects set forth in the budget are : a) a new dairy with a capacity of 4 lakh litres a day in Sholinganallur, b) conversion of 70,000 old type handloom into power loom in the next 10 years, c) a massive 5 year programme to modernise 50,000

handlooms at a cost of Rs. 42.30 crores, d) the setting up of power generation to take up all new generator projects (it will immediately take up a 300 MW power project based on cauvery offshore gas), e) a special repair programme (Rs. 150 crores) to relay 800 km of poorly maintained roads in 5 years, f) improving 800 rural market roads connecting 19 market centres in 5 districts at a cost of Rs. 45.28 crores, g) constructing this year 1.22 lakh houses, h) a Rs. 20 crore programme to provide education to school dropouts in the age group 6-14 by utilising the services of educated unemployed, i) a total literacy campaign to cover 78 lakh persons in the age group 15-35, j) a 10 point programme for the welfare of SC/STs and an integrated women's development programme to provide sustained self employment to I lakh women and special assistance to women on the informal sector of small business like running pavement shops, flowers and vegetables. The welfare measures proposed include: a) a time bound pension scheme for the families of handloom weavers in the cooperative fields if one of the worker died, b) a talent search scheme for rural women, c) restoration of free rice to old age pensioners, d) a massive water supply for habitations that still do not have a single source of drinking water and e) a health fund for government employment. The budget is on the whole a good and encouraging document Given that the last few issues of the Bulletin, starting with Vol. XXI p315 which recorded the first decision of the new government to close down the cheap liquour scheme in the state, involve a loss to the budget of 1991-92 of Rs. 322 crores and about Rs. 600 crores in the following full years, and going on to the next issue which listed the new projects which the Chief Minister announced in replying to the debate on the Governor's speech —which pointed to an overall deficit for 1991-92 of over Rs. 1100 crores, and the worrisome question as to where this would come from, particularly from the union which itself faces a resource crunch, the fact the deficit has been brought down to Rs 577.41 crores is an encouraging point This is still a large uncovered amount, but the two programmes that resulted in this still large uncovered sum—partial prohibition and essential welfare scheme promised in the election manifesto—are the inescapable responsibility of the state government. There are two means by which this large uncovered deficit can be covered. One is the resources to be transferred from the Union government on both these grounds. The other is through the faster development of the industrial sector and the power scheme developed with the help of Indian industrialists—for example the Jayamkondan lignite project and the new thermal system that it can help develop (see Vol XX 488), the southern gas grid, the petro chemical projects, particularly the aromatic project which has been long hanging fire. The budget also makes some effort at equity even though it is largely limited to indirect taxes. For instance, the tax on two wheelers and motor vehicles, the lower value items are either exempted and tax lowered, while there is a steep increase in taxes on vehicles exceeding 9000 and 12000 cc and tourist cabs Again the urban levy has been directed at the well to do and the land tax of Madras, Madurai, Coimbatore, Tiruchi, Salem and Tirunelveli rationalised. Similarly the agricultural income tax has been abolished for non plantation crops such as paddy, sugarcane, turmeric, betelvine, plantain, coconut, cholam, cumbu, groundnut, cotton and gingelly benefitting 45,000 farmers, and even on plantation crops

the larger estates are to pay more, as the exemption has been raised from Rs. 10,000 to Rs. 20,000, and finally the new agricultural tax rate of compounding per acre on a slab base—Rs. 150 from 8-12 acres, Rs. 200 from 12-20 acres, Rs. 300 from 25 to 40 acres and Rs. 500 from 40-50 acres. This is also technically sound. In other words, the budget has done the job it could in an extremely difficult financial and overall economic situation. There are problems. The most serious is that of power whose subsidy keeps increasing as the tariff charged does not meet the cost and the cost itself rises because of poor maintenances. There are also losses on transport and minor irrigation works due to low charges. On the public distribution system the budget subsidy this year is Rs. 346 and all subsidies above Rs. 1700 crores and these should be pruned. The Agricultural sector is not paying its share of the tax revenue of the government. The complete tax exemption of the large paddy farmers is inequitable. The belt tightening of the well to do is inadequate, so that there could be more of a contribution to the lessening of the deficit. These are essentially political and policy decisions with which government should face and make. The concessions announced during the examination of the grants especially those for the sales tax, are either cosmetic or will plunge the state into further deficit. After 4 weeks of examining the demand for grants by the Departments and Ministries, the Assembly approved the appropriate bill which appropriates Rs. 8469.22 crores for 1991-92 against the Rs. 8145.83 crores expenditure presented in the budget set forth earlier. In approving the bill, the Assembly noted the Finance Minister's concluding observations: 1) the members should help create a climate to bring down the mounting subsidies comprising : a) Rs. 326 crores for the public distribution system which will risé to Rs. 500 crores in 1992-93 at 65,000 tonnes of rice at the current rate, and where the offtake has risen from 65,000 tonnes a few years ago to 1.5 lakh tonnes now. There should be fair price shops, not low price shop: but the real problem not brought out is to limit the PDS rice distribution to the poor and not for it to be available to every one, b) Rs. 550 crores subsidy on power where the cost is Rs. 1.45 per unit and every consumer including HT industries gets electricity with a subsidy and the farmers free supply. The free supply to farmers should pay cost plus, c) Rs. 58 crores as the combined loss on the State Transport Corporations which can be met only by raising bus fares. Not only do these subsidies deprive the state and people of resources for major development works, the current practice of financing the current account revenue deficit from capital resources, as is proposed in the budget, is thoroughly bad as, it means that funds meant for capital investment are being expended on current consumption : 2) The minister concluded by demanding fiscal decentralisation which will relieve the state of the Rs. 612 crores which it had to pay to the union government/RBI as interest this year and on top borrow Rs. 75 crores this year, as will be reported later. Also this situation has resulted in the government having to privatise sick public sector units or closing them down. If any private sector firm offered the take over of one of these sick public sector units the government will be glad to negotiate on it. Otherwise the unit will have to be closed down. We looked forward to the time when the state will not need overdrafts and had a balanced fiscal situation.

Planning Commission

Now that the decision that the VIII Plan will run from 1992-93 to 1997-98 has been made at the All India level, the new State Planning Commission will have to work on the restructuration of the state's VIII Plan to cover this 5 year period. As at the all India level, the Annual Plan for 1990-91 and 1991-92 will be treated as annual Plans, not being part of the VIII Plan.

Climate and Prices

The climate in September was cool and cloudy. The south west monsoon tail was in action with continuing rains all over the state including Madras and the Northern districts which normally do not receive the south west monsoon. The positive effect of these rains both with regard to irrigation and agriculture and the drinking water situation in the state may be noted Rainfall for the South West monsoon ran from June 1 to September end and is in excess at 64 cm for Nungambakkam which is a surplus of 29 cm over the normal rainfall for this season and at 54 cm for Nungambakkam (surplus 13 cm). The catchment areas received good rains in the last week of September, Red Hills 7 cm, Sholavaram 5 cm and Tamarapakkam 4 cm during the 24 hours ending 8.30 a.m. on September 28. As for prices, there has been a sudden spurt in the despatch of CSO's monthy abstract of statistics which in the last issue of the Bulletin for October reported on the price data set forth in its February issue : now as at the end of September, four issues for March, April, May and June 1991 have been received and are reported here in that order. The index number of consumer prices for Tamil Nadu as reported in the March issue rose by 2 points in December and 5 points to 200 in January 1991, the April issue reports a I point rise in February, the May issue reports a 4 point (2 per cent fall to 197 in March and the June issue reports no change at 197 in April : the index number of consumer prices for agricultural labourers as reported in the March issue shows a I point fall to 780 in January 1991, the April issue a sharp rise of 19 points to 799 in February due mainly to the steep 24 point rise in the prices of food, the May issue a fall of 4 points to 795 in March due to fall in food prices by 9 points and the June issue a rise by 3 points to 798. The consumer price index numbers for non manual employees in the March issue shows a rise of points to 177 for Madras, a rise of 2 points to 169 for Coimbatore, a rise of 3 points to 170 for Madurai, a rise of 6 points to 170 for Salem, a rise of 5 point to 174 for Tiruchirapalli — all for the month of January the April issue shows for February for the 5 cities a rise by 1 point to 178 for Madras, no change at Coimbatore, a fall by 7 points to 174 at Madurai, a fall by 2 points to 168 at Salem and a rise by 1 point to 175 for Tiruchirapalli and for March a 2 point fall for Madras, no change for Coimbatore, a 1 point fall for Madurai, a 2 point fall for Salem and no change for Tiruchirapalli, the May issue repeats the above figure for March for the 5 cities, and the June issue also repeats the April data. Looking at the price situation reported, it is noted that i) there are upward price movements even in non manual employees index despite their prices being heavily subsidised, which is an indicator of the force of inflation, ii) the price of foodgrains in the rural areas rising sharply particularly in May in a year when there is reported a continued good harvest and a comfortable

foodgrain stock position, iii) while both industrial and agricultural workers have had to face the rigours of inflation, the latter the agricultural workers, have had to bear a sharper, higher inflation rate.

Power

The power situation in the state in the second half of August and September was comfortable because of the good rains which have filled the hydel reservoirs as reported in the last issue. Along with adequate coal stocks, TNEB reports having supplied 3100 MW on August 23. In terms of plans, the fifth unit (210MW) of Tuticorin thermal will go on stream in February 1992. It also reports that the union government has approved Rs. 28.75 crores for setting up 2 mini hydel stations at Lower Bhavani and Sathanur dam. 5 more mini projects at Perunchami, Pechiparai, Amravatty, Tirumurti, and Aliyar have been prepared and posed to the World Bank for aid. The state government reported to the Assembly that the first phase of the lignite power project of 500 MW in the joint sector with an outlay of Rs.1500 crores is expected to be completed in 5 years. The total capital cost of all phases of this project based on Jayamkondam lignite is estimated at Rs. 5000 crores. The Assembly was also told that a new power generation corporation is to be set up, which will immediately take up a 30 MW. Cauvery offshore gas based power project and all future power projects in the state. From September 1, the power tariff has been increased for all consumers excepting agriculturists. This increased levy on domestic consumers, industries availing LT and HT supply, cinemas, studios, laboratories, olleges and educational institutions is expected to bring in Rs. 134 crores this year to TNEB and Rs. 270 crores in a full year. The exception made in the case of the farmers raises a basic question which is raised in the next section.

For the country, the good south west monsoon (except for the North West patch) has eased the power situation in all states when it was normal in August and September. In terms of plans, the Department of Atomic Energy has reduced its target of producing 10,000 MW by 1000 to 9000 MW because of the non availability of inputs. Of the reduced target, Tamil Nadu's Kayamkulam Soviet reactors are expected to produce 2000 MW. The major issue in the power sector that has come up in September is its management, rather its financial mismanagement. The World Bank which has a large share in financing the country's power project is sharply critical of this mismanagement and the inability of the power sector to keep its promises and commitments to the Bank, leading to the Bank's freeing, suspension and notice of even cancelling the loan. The Bank has set a target of 3 percent surplus generation by the Boards, which only 2 out of 17 Boards have been able to meet, 5 of the Boards have had a negative ROR for the last 5 years. There is also the growing and heavy debt of the Boards to Union authorities. They owe Rs. 1000 crores to BHEL, Rs. 1800 crores to the CIL and Rs. 2200 crores to the union government, and its affiliated bodies — NTPL and NHPL etc. The union government has asked the Boards on September 7 to submit each an operational and functional action plan setting forth the steps they will take to clear the dues to the above union bodies with a time bound frame, as otherwise the union has threatened to cut off funding these projects, amounting to $1.5 billion annually (Rs. 3750 crores). The only

way in which they can meet this claim to clear their debt under a plan that each is to submit by October 3 is by introducing cost based tariffs, revamp the loss making Electricity Boards, and agree to a uniform agricultural power tariff which also the World Bank was insisting on. Under these condition, the decision of Tamil Nadu which is a power deficit state to raise the tariffs for all consumers, except agriculturists is wrong and will involve the state losing external funding. External funding agencies are holding back because as at 31 march 1990, the SEBs owed Rs. 3819 crores. But even more seriously, this situation also acts as a serious bottleneck to the country's development. The 2 immediate issues confronting each SEB are 1) to make the power tariff cost based and 2) to accept a national minimum for agriculture. The Power minister's conference in early March has made a sound start in unanimously deciding a) to fix a common minimum power tariff for farmers—with the power to each Board to charge more and b) a minimum 3 per cent return on the net fixed assets of each board. Both these are not adequate, but they are a good start and must be adhered to. In this connection the power tariff rise should not be because of the inefficiency and poor management of the Board. To avoid the consumers being saddled with this burden, there should in each state be a normative cost guide which would take into account the average age of the plant and equipment, the state of the distribution network and problem in input supplies. On the operational side, the Central Electricity Authority reports that it has cleared 39 renovation and modernisation programmes for Rs. 112 crores during the VIII Plan. Also the newly established National Power Transmission Corporation reports taking over in mid August management of transmission qusiness from NTPC, and will become the sole union institution for power distribution. NTPC reports that the interregional first high voltage direct cum transmission line between Maharashtra and AP will supply 1000 MW from the western grid to the power starved southern states. An important development was the passing in September of the amendment to Electricity law widening the scope of private sector participation in power generation, supply and distribution. This is to meet both the paucity of resources in the VII Plan for power and as a sequel to the new industrial policy outlined in the last issue. When the President signs the Amendment, the government states that it will set up a high level committee to process quickly the applications from the private sector.

Water

The World Bank aided Rs. 321 crores water supply and sanitation project now being implemented by the Tamil Nadu Water Supply and Drainage Board is to be completed by June 1993. The union government is now studying a Rs. 505 crores World Bank aided drinking water supply project for Madras and surrounding areas. The project will make available 400 millilitres per day of water from the Krishna river—the Telegu Ganga project. It is running a little behind schedule and so both AP & TN government need to speed up its implementation. The government also reports that a Rs. 251 crores project has been prepared to prevent pollution in the cauvery. The discharge of sewerage from 35 plants on the banks of the rivers and effluents from a further 1130 industries are proving a serious threat to cauvery waters. The project involves proper treatment of disposal of waste water

let into the river involving suitable treatment methods.

Transport

Southern Railway completed in early September the EMU Service in the new broad guauge system. This is the first part of the long awaited Mass Rapid Transport System—the 2.75 km stretch of the Madras Beach—Park Town which when extended to Luz will run 8.5 km. Both trade and passenger travel will be assisted by this extension from Trivellore/ Gummidipoondi to Park Town. But the mass transport system whose final plans have not been subject to public debate raises several questions. Southern Railway also announced in mid August that electrification of the Madras-Salem railway line has been completed and work is in progress to extend it to Erode. This will help to transport goods, particularly coal to the Mettur Thermal plant. However questions about not taking into account the more efficient mode of intermediary stages and alternatives are bound. The partially elevated bus way to be used in 1996 and experienced in 2001 is based on questionable assumption of speed and capacity. The advantage of the Light Rapid Transport System have not really been explored nor that of the metro or the German Metro-Bahn. The state government also announced in mid August the formation of another state transport corporation, the MGR Corporation with its headquarters in Kancheepuram. This Puratchi Thalaivar MGR Transport Corporation is taking over the routes from Periyar and Pudukottai Alagiri Corporation and will function in Chengai - MGR district. The economics of this decision is not clear. Will it add to the already fiscally burdened state and the deficits of the transport corporations ?

Revenue Collection and Permanent Trade Fair Complex

The Comptroller and Auditor General has in his report for the year ending March 31, 1989 highlighted the fact that the uncollected tax and non tax revenue was Rs. 443 crores in 1988-89, of which the uncollected sales tax alone was Rs. 273.4 crores. This is regrettable as there is a budget deficit every year which is attempted to be covered by additional taxation, rather than collecting fully the revenue due to government. This is particularly important for this year when the budget deficit is a high Rs. 575 crores. There is also under assessment and losses which the test audit has brought to light along with the incorrect grant of rebate to some transport corporations, grant of irregular revision of stamp and registration duty, substantial loss under urban land tax and short levy of royalty. The government should study the report carefully and avoid repeating these grave lacks and errors this year. The government announced to the Assembly that a permanent trade fair complex with an amusement park is to be established at Taramani in Madras.

The priority for this is doubtful.

National

Plan

The reconstituted 12 member Planning Commission (reconstituted on August 12) met on September 19 and decided that i) the Eighth Plan 1992-93 — 1997-98, will aim at a growth rate of 5.6 per cent, calling for ii) a gross investment of Rs. 7,92,000 crores at 1991-92 prices, with iii) the average rate of savings of 23 per cent of GDP and

ICOR of 4.1, iv) of the gross investment, the public sector outlay will be Rs. 3,42,000 crores, the private sector Rs. 1,48,000 crores and the household sector Rs. 3,02,000 crores, v) domestic saving is assured at 21.6 per cent and external savings at 1.4 per cent of GDP (Rs. 49,000 crores), vi) the export growth will be 13.6 per cent, vii) the emphasis in the new plan is to be on resource mobilisation and non inflationary deficit financing which has been fixed at Rs. 37,000 crores, which is an average of Rs. 7400 crores deficit financing over the 5 year period. The commission also set up a 3 man panel to work on the revised Gadgil formula to be presented at the next meeting of NDC. On the transfer of centrally sponsored schemes to the state, the commission agreed with the Narasimha Rao committee recommendations for retention of about 125 such schemes by the Union, 113 to be left to the states, and 24 to be treated as autonomous. The chairman's concluding comments called for detailed scrutiny of public sector units — both on union and state levels with proposals for improvement in their efficiency, for conceptual reconciliation of the confrontation between environmental protection and development needs for a strategy for technology which will forecast ahead of time, technology appropriate for the country along with a futuristic approach of the technology needed, for a medium shift in the energy policy which may move to the hydro and coal based power generation, and for diminishing non plan expenditure by rationalising the manpower in the union and state governments. The Plan's main merit is that it represents continuity in the plan exercise, as, for one matter the 5.6 per cent growth rate fixed for the VIII Plan is the VII Plan growth rate. The discontinuity with the approach of the two previous minority governments is justified by the intervening circumstances, namely the Gulf war and its impact on the economy and the prolonged political inability. The two years 1990-91 and 1991-92 are treated as Plan holidays and given the fact that the current year's growth rate is forecast at a low below 4 per cent, the attainment of the 5.6 per cent growth rate in the 5 years of the VIII Plan becomes feasible. It is pointed out that the present Planning Commission is looking for impressive, not satisfactory growth by rescheduling of the VIII Plan from 1992-93. As its base (1991-92) is low, it can achieve positively and surpass, the projected 5.6 per cent. As for the aggregate outlay of Rs. 7,92,000 crores at 1991-92 prices, given the near 15 per cent inflation and the aggregate of inflationary pressures, this target can be achieved by both the public sector which has a smaller share (compared to the V.P.Singh government's Approach Paper) with the private sector having a larger share. The aggravation of inflationary pressures on the basis of the double digit inflation current now for 2 years will have a bearing on both the resources availability and the attainment of the physical targets. In this context, to talk of non inflationary financing of the Plan seems unrealistic. The major issue, however, is the purpose of any growth rate and the level of investment. We have now for 7 Plans (near upon 40 years) set growth rate and investment targets. They have had little impact on the major issue facing the economy and the Plan — the reduction and elimination of poverty. We have not been able to correlate our growth and investment target with poverty reduction. But is that the only purpose of the Plan and its envisaged growth and investment rates? Will the VIII Plan be an exception and will the correction be made? That will call for a number of measures on prices, on education and health, on

environmental pollution, population control and above all on developing an economy where inequalities are diminishing, giving some hope and motivation to the poor and deprived. Will the VIII Plan address, itself to these issues to achieve the major goal of poverty reduction and inequalities dampening?

Prices

The inflation rate for August was over 3 per cent (with a rise of 6.4 points), the whole sale price index standing at 208.3 per cent on August 31. The annual rate of inflation on August 31 was a high 15.3 per cent, up from 12 9 per cent recorded for July and 12 2 per cent recorded for the year 1990-91. The rise in the price of primary articles continued, particularly food articles. Prices of as many as 173 commodities out of 447 used in the whole sale price index rose continuously during the 6 post budget weeks ending August 31. The increase was more than 10 per cent for 50 commodities. The index for food articles increased by more than 7 per cent from 229.4 per cent in the pre budget week to 245.6 on August 31. This is puzzling because food supply was not in short supply, neither the devaluation of the Rupee nor the budget touched food articles. Increase of more than 10 per cent is recorded in prices of wheat, masur, chick, tea, jowar, barly, fruits and vegetables. One explanation is that these items are being increasingly exported to earn the high prices abroad which the producer wants and the foreign exchange which the government wants. Non food articles rose only by 4 per cent from 221.4 to 236.6 during this 6 weeks period. All other groups, mineral, fuel, power and lubricants, textiles, beverages and tobacco, wood and wood products, paper and paper products, leather and leather products, rubber, chemicals, non metallic minerals, basic metals, machinery and transport equipment—also rose by 1 to 4 per cent each, except tobacco which because of the tax in the budget went up by 10 per cent, paper by 7 per cent because suppliers of paper put up their prices, and even machinery dependent on imports rose only by 5 per cent. In this context, the Finance Minister's assurance that the process of disinflation will start by mid October can be realised, if food prices are controlled, though his estimate of inflation of 9 per cent for the year seems an underestimate. The best forecast is that the year's inflation will be between 12 and 13 per cent.

Budget and Union loans

Parliament passed the budget for 1991-92 with the Rajya Sabha returning the Finance Bill, the Lok Sabha having approved the Appropriate Bill for the expenditure of Rs. 2,26,211.35 crores. The Finance Minister announced a series of concessions in direct and indirect taxes amending the Finance Bill with the statement that he would present comprehenesive tax proposals on receipt of the report of the 5 member taxation reform committee headed by Rajah Chelliah which has been set up in late August to review the direct and indirect taxes and recommend a more broad based and elastic tax system. The concessions announced included tax incentives to boost exports under 80HHC of the Act, reduction of the basic and auxiliary customs duties on jumbo films (cost Rs. 20 cores in a full year) full excise waiver of agro based products like fruit based beverages, soups, powders of fruits and vegetables (cost Rs. 9 crores) as part of 23 such relaxations. The budget remains very largely

untouched, though the concessions are not the usual routine ones, but are aimed at major policy goals—like the proposal to treat profits on the sale of ex-imp scrips as export profits eligible for exemption under section 80 HHC is aimed at boosting exports as is the dispensing of prior approvals for export of technical know. There are questions on some concessions announced such as the large loss of revenue from the customs duty reduction on jumbo films and the extension of the deadline for unaccounted incomes which will send the wrong signals to black money operators. But the main thrust of the budget and the concessions are on the right lines. The latter include the extension of time span to calculate the average market price of shares from 5 to 10 years with tightening of depreciation norms, the tax incentives granted to tax operators, the restriction of the luxury tax to air conditioned hotels, inclusion of deposits other than those with commercial banks from the requirement of tax deduction at source etc. One of the major issues relates to the Parliament's procedure on budget approval. With years, fewer and fewer ministries are examined by Parliament. This year the grants only for five ministries—industry, agriculture, food, rural development and defence were examined, (even the 5 became possible because food and agriculture were combined), after which the guillotine was applied This means that 90 per cent of the budget, over Rs. 2 lakh crores, have been approved in minutes without any examination. Part of the reason for this is the time wasted by the Lok Sabha on non budget matters, so that the budget discussion which was to begin on August 6 did not start till August 2ʋ. Further with 34 ministers, 4 autonomous departments plus other wings of government such as Parliament, the presidents secretariat, the union public service commission — all totalling 98 demands for grants, Lok Sabha can never in plenary examine all these. So the time has now come for Parliament to work through Finance Committee to devote adequate time to every demand for government, otherwise there will continue to be wastes built into the budget. In end August, the Union government announced the issue of 4 loans for Rs. 2000 crores. At the end of September, 21 states announced loans for Rs. 1000 crores, ranging from Rs. 170 crores for UP and Rs. 125 crores for West Bengal down to Rs. 2.96 crores for Arunachal Pradesh. Tamil Nadu's loan is Rs. 75 crores. In late September the Finance Minister announced a 5 per cent cut in the allotments to all departments which will save Rs. 2500 crores and help meet the target of keeping the fiscal deficit for the year to 6.5 per cent of GDP.

Stock Economy

In September, two development in the money market should be noted. First the Bombay Stock Exchange index crossed the 1990 mark and at this rate will soon reach 2000. This operation of the market by the brokers show a complete insensitivity to the crisis that the country is passing through. There is no doubt that the wayward movements of the Bull operators should be countered and for this the financial institutions must play a more active part. This background accounts for the recommendation of the Pherwani high power committee for the establishment of new stock exchanges that a national stock market system (NSS) with a national stock exchange at New Bombay be established with the 5 principal exchanges and 14 regional exchanges. The recommendation is for the NSS to be

implemented in 4 phases — phase I will provide for the dissemination of 2 way quotes, company and exchange announcements and indicative transaction prices, phase II a network connecting individual member offices with the central offices, Phase III an automatised trading system and Phase IV the system to cover all scrips. It is not surprising that this recommendation for the NSS has called for strong opposition, starting with Bombay Stock Exchange (BSE) and including all exchanges which point out that this will lead to confusion : the brokers of course do not want change, do not like outsiders, they are against the entry of professionals, they oppose curbs on badla trading and want to keep BSE and every exchanges as exclusive clubs of their own. But the present chaotic system cannot go on. There are pros and cons to this question. The need of the hour is not more new exchanges but mainly improved functioning of existing exchanges. As the preferred system will be a non starter if there is general opposition from the stock brokers community, one way forward is a) for RBI and the government to help develop a flexible interest rate policy with all instruments earning the same rate and b) for the NSS to be entrusted to BSE which might be given a time limit to start and operate the system as the Pherwani committee recommends. The other development in September was the recommendation of the Dave committee for the functioning of mutual funds that may be permitted in the private / joint sector. The private sector is to be permitted to sponsor mutual funds only through Fund management companies with a minimum equity capital of Rs 2 crores each It will be open ended with no limit to the maximum fund. They should enjoy tax exemption like UTI. They will not be permitted to invest more than 3 per cent of their funds in affiliate companies. These are sound and necessary recommendations which will augment capital mobilisation in the country and should, after scrutiny; be acted upon.

Economy

In September there were two major and several other developments to be noted. The first was the announcement of September 13 which continued the liberalised trade reform including a new deal for 100 per cent export oriented units and export processing zones (EOUs and EPUs), strengthening of the system of advanced licenses, reduction in import items and the redesignation of the office of the chief controller of exports and imports as Director General of International Trade. On September 19 the government also announced a higher rate (40 per cent instead of 30 per cent) of ex-imp scrips for 22 categories of engineering products. This further trade liberalisation is the result of the trade data for April and May 1991 showing that the trade gap has declined because of import compression and not because of export expansion. In fact there has been a decline in exports in dollar terms in these 2 months despite the July devaluation of the Rupee. There is one problem with our foreign trade data and the precise amount of the current trade deficit. For 1990-91 the government announced the deficit as Rs. 10,644 crores, while RBI announced the deficit as Rs. 15142 crores. This difference between government and RBI has persisted since 1984-85. The reason for this differance is that the government figure does not include items that do not pass through the customs like the large defence imports, payments for ships and aircrafts purchased. This difference should be settled by them because our

trade policy depends on it. What is not in doubt is the large deficit—the argument is the amount. Hence the further trade liberalisation package announced for EOUs and EPUs and strengthening of the advance licensing along with provisions for transferable advance licenses for general currency countries in respect of the export thrust areas of textiles, leather goods and engineering. Further export houses, trading and star trading houses have now a leeway to import a wider range of items against advance licenses and are allowed to open foreign currency accounts and raise external credit to pay for their export related imports. All this does not solve the problem of the exporters in finding, under a regime of tight foreign exchange, which the Commerce Minister rather unfairly discribed as involving ' savage curbs on imports". With BOP crisis and limited foreign exchange, there is no alternative to the present austerity. The extended liberalised policy should lead to increase in exports. Similarly the September 26 government decision to allow all industries one time additional import of machinery to the extent of 15 per cent over and above the value of capital goods already approved will help EOUs and EPZ to export more. The 11 member committee headed by the Secretary of the ministry, MS Ahluwalia on trade policy reforms will be looking into the possibility of eliminating all licenses and quantitative restriction on capital goods and raw materials and to place them under OGL except for a small list of items. The $6.7 billion loan aid, to be referred to later, should help the foreign exchange situation. Except that there is a disturbing report from a study (of ISID) that half the country's importers obtain 92 per cent of the value of gross imports. This unbalanced state of the country's imports should also be examined by the committee. Also even as we mourn the shortage of foreign exchange, government reports to Parliament that over $12 billion from the World Bank and IDA given to India are lying unutilised as at June 30, 1991 The second major issue is the series of overview of the economy that came out during the month RBIs annual report for 1990-91 refers to the critical balance of payments position which involved rationing of credit for some sectors like exports, the devaluation of the rupee, the imposition of severe curbs on imports along with high cash margin and rise in interest rate. There has been accentuation of inflationary pressure despite a good monsoon and bumper agricultural harvest. Agricultural production will increase by only one per cent this year 1991-92, because of the high base in 1990-91. Industrial production will decline this year and GDP growth is estimated at 5 per cent, compared to 5.2 per cent in the 2 previous years. The deceleration in industrial production by some 2 per cent to 6 per cent, will involve GDP growth of around 3 per cent in 1991-92 and what is more important that the new industrial policy, trade liberalisation and loans and aid should lead to a relaxation of the restrictions and the tight monetary policy (the government has imposed a 5 per cent cut in expenditures as noted earlier), so that in next 2 years industry can grow and help reduce poverty. The report also argues in favour of deregulating interest rates on government securities, bank deposits, priority sector lendings and company deposit and allowing the development of a flexible interest rate policy which will respond to the overall liquidity position of the economy. So deregulation of interest rates of banks and financial institutions in relation to large borrowers, money market and debenture rates is good, but this

needs to be exceeded. The Planning Commission listing the major areas of concern as the failure of PSUs to mobilise adequate additional resources, the persisting fiscal deficit and increasing non plan expenditures and rising current account deficit in its annual report for 1990-91, forecasts a 5 per cent growth on GDP (which is also the RBI projection) for 1990-91. NCAER's quarterly review of the economy asks the government to be unrelenting in implementing its policy package of reforms and its execution. The World Bank in its Annual Report refers to the country's macro economic difficulties along with the country's political uncertainty as dampening key economic policy reforms and many pitfalls facing the government. It refers to the country's major achievement of the decline of rural poverty from 40 per cent to 23 per cent and urban poverty from 28 to 20 per cent. It also analyses the effect of the oil shock on India's BOP and ends with a note of optimism if India adheres to the path of structural reforms. UNCTAD in its Trade and Development Report 1991 projects a 4 per cent growth rate for 1991-92 mainly due to the slowing of its industrial development caused by the difficult BOP and constraint on imports. It will be noted that this 4 per cent compares with RBI's 3 per cent GDP growth for 1991-92. Another issue which has come up in September is the government's banning of cotton yarn export to counter the sharp escalation in yarn prices. The handloom weavers, in particular, are hit hard, the rise in price must be stopped. But hanking yarn exports is the easy and wrong way out at a time when the external demand and prices are soaring. In the first 8 months, January-August 1991, yarn exports have risen to 9.6 million kg valued at Rs. 516 crores against the previous year's 53.82 million kg worth Rs. 310 crores. The country cannot afford the ban. Further it will do serious long term damage to our export standing as India will be classed as an unreliable supplier. Instead first the indigenous production of yarn through NTC in particular should be stepped up and hoarding smuggling and speculation in yarn stopped. It was therefore good that on September 30 the government suspended and lifted the ban on yarn exports permitted through EOUs and advance licenses. India has recorded in the current year ending September 1991, high sugar production of 115 lakh tonnes, making the country the largest sugar producer. As a follow up of the August meeting of the 2 day Advisory Council on the Public Distribution system, the Prime Minister who presided over the meeting has asked the states within one month to identify blocks and villages to be given special attention for the streamlining and widening of the public distribution system. The council concluded with calling for setting up fair price shops in 1500 blocks coming under various special thrust schemes such as DPAP, DDPA, Integral Tribal Development project areas and hill areas.

Industry

Against the backdrop of the slow down in industrial growth during the year to 6 per cent referred to earlier (some economists place the prospects at 4 to 6 per cent), the CSOs data for IIP for April and May confirm this forecast. The industrial growth rates for first 2 months (April and May) records a negative growth of -0.3 per cent the growth rate for manufacturing declined by 1.4 per cent in August and by 3.3 per cent in May. The average growth for

manufacturing for the first 2 months was lower by 2.3 per cent than that of the previous year. Other developments in September include the question of a code of conduct for 12 corporation takeovers, mergers, corporate decisions, involving the market deciding which firm should prosper, which should be liquidated, which products should sell, which flop — the code being devised by the corporate sector itself. This follows the events recorded in September on the Larsen and Tourbo AGM and even more important, the growing role given to the market. The government announced in September that the list of items whose manufacture in the small sector has been banned was withdrawn. Also in September the government announced the setting up of a 4 member Board for foreign investment headed by the Principal Secretary to the Prime Minister to negotiate with large international firms and approve direct foreign investment in selected areas. In this connection the liquidity of FIs is more serious than those of commercial banks because that will affect the investment ahead. The government has also announced a list of 34 industries for automatic approval of foreign technology as a follow up of its industrial policy. This continuing clarification on technology in the policy is welcome, if there is also a simultaneous clarification on its employment impact. The government states in Parliament that under the new industrial policy, the private sector is free to enter any field where the public sector is operating except in the 8 areas exclusively reserved for the public sector. On September 27, the government amended the MRTP Act through an ordinance to a) drop the requirements for large companies obtaining prior government approval for expansion, merger, takeovers, establishment of new units and appointment of new directors, b) give more power to the Commission to curb and regulate monopolistic, unfair and restrictive trade practices against public interest and to provide deterrent punishment for any contravention and c) to apply the Act to all public sector unit including railways, airlines, banks, electricity and water supply authorities. The government points out that while giving up present restrictions and other time consuming procedures, the concept of interconnection and market dominance (which is a 25 per cent of the market) have not been given off. They have been removed from the MRTP Act (Chapter III—A) and shifted to the Companies Act (Section 108—A to 110). The majority of the foundry units in North India reports continued shortage of pig iron, resulting in the closing of some units and the stand still of others. September presents a mixed, complex and rather gloomy industrial scene.

Public Sector Enterprises

The Department of Heavy Industries reports that its 32 unit performed well in 1990-91 recording production of Rs. 8346 crores and expect a production of over Rs. 10,000 crores in 1991-92, that they made a profit of 12 per cent in 1990-91, with BHEL and Maruti operating effectively in the export market. It reports that the concept of memorandum of understanding is a major step to increase autonomy and improve performance, and what is needed is a report on the internal generation of resources by the enterprises, their contribution to plan finance and the extent to which they are independent of budget subsidies. They are the critical issues on which the enterprises have been doing rather poorly.

National Production Front

Steel

The government informed Parliament that because of the new industrial policy and the financial constraints there will be no steel plants set up in the public sector. This immediately affects the Vijayanagar steel Plant in Bangalore, whose foundation stone was laid by Mrs. Gandhi. The Karnataka government informed its legislative Council that it has accepted the offer of the Essan Gujarat limited to set up the plant. Its investment is estimated at Rs. 2000 crores and that as the new industrial policy states the new steel factories to be established in the country do not now need the union government's permission. It is only approaching the union for release of foreign exchange. The union government states that it is studying the request. This is an interesting and important development, as it would be the first steel plant (apart from TISCO) to be set up without government help and funds. The union government also reported to Parliament that it is making every effort to ensure higher steel production over the last year's 7.36 million tonnes of saleable steel and improve productivity. The government states that it will disinvest 20 per cent of equity in SAIL in order to finance SAIL's modernisation programmes.

Crude

In order to accelerate the quest for oil and gas reserves, the government in August announced the fourth round of inviting tenders for the award of exploration contracts for oil and gas in 72 blocs (39 offshore and 33 onshore) spread over 17 basins. The additional feature of the production sharing concept, with the contract term period of 25 years in the case of crude and associated gas and 35 years in the case of non associated gas. So far the companies have spent over $124 million without discovering any hydro carbon. In this fourth round the company could bid for a timely seistolic option in the first phase. Given the urgency of increasing crude production, the conditions under which the companies operate need to be liberalised, taking into account similar firm in other countries' locations. If there is a commercial discovery of oil or gas, the company can participate in its development and recover costs and earn a reasonable rate of return on the investment. The returns would be in the form of profit in oil which will be shared between the companies and the government. It is to be hoped that there will be an adequate number of companies bidding and that their discoveries are impressive. Under these conditions of shortage of crude, the work stoppage by ONGC workers both in Assam and elsewhere which cuts the inadequate oil supply even further is a national scandal and should be prevented.

Coal

In August end, the government fixed the coal production target for 1991-92 at 228 million tonnes (16.3 million tonnes as the actual production in 1990-91), with CIL to produce 203 million tonnes and Singareni 26.5 million tonnes. CIL reports a high labour productivity in 1990-91 of 3.34 tonnes output per manshift in its open cast mines and the launch of a mission to augment availability of coal to small industries and the household sector. The government has directed CIL to

suspend supplies of coal to State Electricity Boards unless they made advance payments for their requirement. It is required to recover the dues of Rs. 1800 crores from the boards, if it is to continue receiving budgeting assistance in the future. In the 1991-92 budget, government has earmarked Rs. 500 crores as assistance to CIL. The Cash and Carry formula is aimed at making CIL run on commercial lines as a viable undertaking. Budget assistance to CIL has fallen from 99 per cent in the SDS to 19 per cent today and is to be zero in 1992-93. Is this practicable? The Central Mine Planning and Design Institute reports that its survey shows that India has a coking coal reserve of 29,000 million tonnes and the reserve of prime coking coal alone is 6063.96 million tonnes. This is good news for the steel industry.

Non ferrous

In September, the problem of copper availability is becoming serious. Taking into account indigenous production, opening stocks, domestic availability of the metal with MMTC and HCL and the limited imports now in the pipe line, only 40 per cent of registered demand for the metal will be met. The government has imposed a cut in the allocation of the metal on all users. Even so HCL is facing a serious situation as it has not been able to produce cc rods without the import of copper cathodes. So the ministry has recommended the import of 25,000 tonnes of wire bars and 30,000 tonnes of cathodes for HCL. So far only a small part of this import (for Rs. 70 crores) has been authorised. The copper crisis is also due to the new trade policy which has made import of copper wires cheaper than import of copper cathodes because of the premium payable on exim scrips for cathodes. The other issue is the diminishing share to the developing countries in the world trade in copper at less than 30 per cent, while they produce over 55 per cent of copper concentrates. UNCTAD and GATT have developed a strategy to raise the developing countries share in the copper trade.

Agricultural Production

With the rains reviving in August, the areas where precipitation had been inadequate improved markedly (Assam, Meghalaya, Bihar, Saurashtra, Rajasthan, J&K, Punjab and UP). However the inordinate delay in the onset of the monsoon and its subsequent truant behaviour in many parts of northern India impeded the kharif sowing operation as well as the healthy germination of the crop, which will act as an obstacle to attaining the kharif target of 103 million tonnes. August rains are welcome but have come too late to completely offset the impact of the bad monsoon in June and July. The estimate as at September 20 is that the foodgrain production is likely to fall short of the target of 103 million tonnes by 8 million tonnes, which has to be made up to some extent by the rabi crop. The agricultural ministry has fixed the rabi foodgrain target at 83.72 million tonnes, about 8 million tonnes higher than that of last year. The 2 day national conference on rabi 1991-92 expressed the hope that given the satisfactory water storage position and the abundant soil moisture availability, this high target will be attained, making up for the loss suffered in the kharif season. This is the rabi strategy outlined by the conference, which puts the onus of realising the overall foodgrain target of 182.5 million tonnes on the higher rabi output. The

government announced increased procurement prices for kharif foodgrains, based on the recommendation made by the commission for agricultural costs and prices (CACP). It is after 2 years that CACP recommended prices are being accepted. While this return to the commission recommendation is welcome, particularly after the last 2 government increased paddy prices by over 15 per cent, infact this year's 12 per cent increase, given the rise in fertiliser prices may be considered being modest. It is important to bear in mind that price policy connot be used to overcome the serious crisis facing agriculture. The government may not succeed in keeping the overall price increase close to floor level by use of the buffer and because of the kind of inflationary pressure today, cannot be insulated from the effects of higher procurement price. The government's justification that higher prices will lead to increase in agricultural investment is a long term view and will not affect the current kharif or even rabi, further it has unequal effect on agriculture. Procurement prices compensation does not reach farmers who do not enter the market and even others who do enter it, the net buyers of foodgrains stand to lose. Also the price strategy has various effects on the quality of land, with these higher yielding lands gaining more, the irrigated lands more than the unirrigated. And most important, this strategy does not provide the incentive to change the high cost character of agriculture. What is needed is the extension of the wide ranging reform characterising other sectors, to reach out to agriculture to make it more productive, more cost effective and more related to the needs of the poor for wage goods. The government reports that foodgrains — rice and wheat — stocks stand at 18.12 million tonnes as of August 1. A study of PHCC I concludes that the production growth of non food grains crops including cash crops and plantation crops has declined from 3.3 per cent per annum during 1956 to 1965 to 2.2 per cent during 1965—89. This needs checking by the department and CSO, for if it is so its causes need to be analysed. How far was this due to decline in area under cultivation and how can this be countered?

Foreign Trade and BOP

As noted earlier, exports are declining. Export growth was 14.3 per cent in 1986-87, 25 per cent in 1987-88, 29.1 per cent in 1988-89 and 36.5 per cent in 1980-90 but dropped sharply to 17.5 per cent in 1990-91. The fall in exports is attributed to the change in the international environment, recession in US, disruption of important Middle East markets due to Gulf crisis, the decline in domestic production in 1990-91, the rise in manufacturing cost, intensification of import curbs introduced in the last quarter of 1990-91 and steep rise in oil prices—increasing the prices of exports. Hence it seems justifiable that the commerce ministry is planning to scale down the current year's export target from 9 per cent to 7 per cent in dollar terms. In Rupee terms, the target would be Rs. 46,200 crores for the year. According to government, exports during April—June stood at $30 million, being —6 per cent over that of the previous year. Overall the balance of trade in this period stood at —32.1 per cent, which is against the commerce ministry forecast. The commerce minister states that for special products specific and market specific strategies are to be worked out for certain focussed sectors where export growth rates of 30 per cent per annum in dollar terms are foreseen in

the next five years. This concept of extreme focus sectors for actively rapid export growth is under consideration by the reconstituted Board of Trade meeting in late September. The Board is to look into specific sectors in depth with particular reference to infrastructure, communication and crude so that constraints to export growth are speedly resolved. Similar Boards of Trade are to be set up in each state for foreign investment set up in August pushing exports from that state. The government at the end of August added 58 items to the list of items to be imported against ex—imp scrips as part of further rationalisation of import licensing. At the individual item level, a regionwise census of handicrafts is being undertaken to boost exports in handicrafts. Entitlement for spices import has been increased from five to 10 per cent and all curbs on cotton exports are to be reviewed. While export of synthetic textiles increased by 24 40 per cent in the first quarter April-June, the export of benzene derivates has declined leading to the import of 40,000 tonnes for the year. Engineering goods exports increased by 30 per cent. Tyre exports are booming and are expected to cross Rs. 200 crores. Engineering exports are reported to have increased by 71 per cent in August 1991. So at the level of individual export items, the picture is still not encouraging.

Aid and Loans

The major event in this area was the postponed meeting of the Aid India Consortium (see Vol XXI p279) which was held on September 19 and 20, which pledged $6.7 billion, including $2 3 billion in fast disbursing aid to meet immediate balance of payment demands. The pledge is a 6—7 per cent increase over last year, with $4.5 billion being from multi-lateral sources, $2.2 billion from the bilateral sources. (13 western countries attended the meeting and made pledges). In addition IMF will lend India $1.8 billion. There was unanimous noting of India's programme of macro economic stabilisation, fiscal adjustment and policy reforms which require difficult decisions and expressed hope that this will send strong signals to investors and financial and commercial markets about the international community's commitment to India's reform measures and its support for meeting its transitional difficulties. This $ 6.7 billion concessional loans and a few grants is the much needed resources help that the economy now needs and there is gratitude to the World Bank for having prepared and piloted the meeting to this end. While in nominal terms the 6.7 billion is higher than last year $6.5 billion and equal to the 1989-90 pledge, it is in real terms lower and lower than aid trends in past years. Further part of this sum has already been committed on an annual basis, so that the net resource flow will be that much lower. On the other hand not only is the fast disbursing aid $2.3 billion welcome, but also the project aid component has fallen from the past 90 per cent to 60 per cent which should improve aid utilisation, when the government reports that as of July 1991, total unutilised external assistance was Rs. 70,748.91 crores on government account and Rs. 4,412.19 crores on non government account. Japan for instance has agreed that part of its assistance could be used for crude imports. Hence the larger fast disbursing and non projects aid is a new plus point this year. There are, however, several cautions to be noted. First, most OECD countries face not only recession but also are preoccupied with aid related market expansion of

Eastern Europe and USSR and to that extent India takes a lower place in their thinking. Second, the pledge was against the World Bank's strong advocacy of the reliability of India's reform and so we need to maintain the pace and direction of our macro economic structural adjustments, particularly against the World Bank's warning of the many pitfalls facing the Indian economy. Third, there are the protectionist policies of the Industrial countries, the decline in the volume of world trade and to 5 per cent last year from 7 per cent in the previous year, the fall in the World Bank price index for non oil primary commodities by 6.4 per cent and the formidable tariff and non tariff barriers to agricultural production and textiles — all of which will restrict the effect of our liberalised trade policy and efforts to expand our exports. Fourth, this gloomy prospect of our earning foreign exchange is upsetting in view of the fact that our foreign debt was Rs.100000 crores in March 21, 1991, which means that the per capita external debt burden has risen from Rs. 618 in 1988-89 to Rs. 835 in 1990-91 with only the fall in the debt service ratio from 23.3 per cent in 1987-88 to 20.8 per cent in 1990-91 providing some relief. In this connection the report of the government and RBI, that $ 1 billion short term debt has been liquidated is good news and should be followed by running the remaining short term debt to medium term. Finally against this background, the loans should be used not for import consumption on which the pressure will come from the lending, aid giving countries but to augment the technological and export capacity of the economy — which is the only way that the country can graduate out of the aid receiving syndrome in which we seem to wallow and develop an economy which earns what it needs in foreign resources and dispense with the concessional loans. The World Bank has in a confidential report stated that India will need aid and extra aid till 1996. Atleast after that year we should do without this aid. In mid September, India drew $636 million from IMF's CCFF to meet the increased cost of oil exports. The World Bank announced in September an IDA credit of $214 million for improvement and expansion of India's national and child health programme from 1991-92, $200 million for road development and $872 million loan for gas development and $154 million for environmental programmes. In mid September, ADB provided a loan of $200 million for the control of industrial pollution. At the end of September, Japan gave a loan of Rs. 2000 crores as development assistance as pledge at the Aid India Consortium. In early September Germany gave DM 350 million to complete its last year's pledge. At about the same time UK gave $1 billion credit for 2 power projects in Haryana and Himachala Pradesh.

International

World Bank

The annual report of the World Bank for 1991 has three somewhat disturbing aspects. First, the decline in its gross and net disbursements for 1991 compared to 1990. Equally worrying is its ratio of net gross disbursements shrunk sharply from 41 per cent in 1990 to 18 per cent in 1991. Second, more and more of the Bank's resources — those of IBRD and IDA are going to middle income economies of East Europe — from $2.9 billion in 1990 to

$4 billion in 1991 which is a 38 per cent growth, compared to the decline in lending to Latin America. (17.1 per cent) and Africa (12 per cent) and a lower growth for Asia (17.1 per cent). Third, the report shows the increasing prioritisation of the private sector and environmental protection, again to the detriment of the developing countries.

UNCTAD

The 1991 Trade and Development report of UNTCAD forecasts a decline in world production and growth due to deceleration of industrial growth in some industrial countries, the deep recession in Eastern Europe and the aftermath of Gulf crisis. It expects world production growth to decline from the low 1.8 per cent in 1990 to a lower 0.7 per cent in 1991, world trade from 4.3 per cent to 3 per cent. Towards the end of 1991 there will be a modest recovery, gathering strength in 1992 resulting in production growth of 2.3 per cent and trade growth of 6 per cent. Referring to regional variations the report points out that while the economic slack was speeding in the industrialised countries, some of the developing countries like China show accelerating growth. Even non oil exporting Latin America who had substantial GDP losses in 1990 is growing in 1991 in both production and trade. The oil exporting countries will experience growth due to their policy reform and increased oil earnings. India because of its large deficits — budget and current account — and Bangladesh because of the cyclone will have a slow down in 1991, while Sri Lanka and Pakistan with the economic liberalisation policies will have higher growth. Developing countries are losing annually $4.6 billion in exports because of the non tariff barriers put up by the industrial countries, from $25.6 billion developing countries export are cut by these barriers. For instance the major export losses are $1.59 billion in steel to US, Japan, EC and Canada, $569 million in seafood to Japan and $163 million in animal feed and $105 million in dried grapes to EC. Japan and US are the only industrial countries, whose imports exceed $1 billion from the third world and are subject to non tariff measures. UNCTAD also calls for more substantial debt reduction by industrial countries following the example of Poland and Egypt.

GATT

Trade ministers from countries controlling two thirds of world trade were meeting in September in Angers, France and decided to stay on till agreement was reached. The main negotiation is on agricultural subsidies and one strand of hope is that the trade representatives of US, EC, Japan and Canada are intensely negotiating the issue. The GATT secretariat states that the work put in since the collapse of the talks last December on agriculture, textile and clothing, market access are serious and give grounds for expecting the negotiation will be successful this time. For India, there is need for the commerce ministry to develop a flexible approach so that the talks succeed as no developing country can afford the talks' failure and the further tightening of protectionism. The US stance on India needs similarly a give and take bargaining to arrive at an agreement on Super 301 and 301. In this connection the warning of UNCTAD that present status of the negotiations will have only limited benefits to the developing countries must be taken seriously.

Labour participation

A study of several countries experience in regard to participation to employees and their organisation effectiveness as measured by job satisfaction, morale, industrial relations. quality of work life, organisation climate and organisation health shows : a) the association between the two is positive in 60 cases examined and negative in 12 and b) there exists a good scope to improve job description through participation of workers of 3 groups. Similarly morale, can also be improved. Improvements in industrial relations require the participation of all workers. Quality of work can be provided through workers participation The improvement of organisation climate and organisation health requires also participation of supervisors and executors.

OPEC

A meeting of OPEC at the end of September in Geneva decided to abandon individual output quotas and for each to pump to its maximum. They expect that there will be the strong demand for oil that they expect in the next quarter. In part this was the result of their not being able to agree on how to treat the production of Iraq and Kuwait. They set a fourth quarter output level fo 23 65 million barrels per day for a target price of $21 per barrel. The price of crude, of the OPEC basket of seven has now risen above $19 (actually $19.47) in a market nervous about dwindling Soviet Supplies. If prices fail to reach the elusive $21 level by the end of the year, the OPEC ministers will meet again to decide on what action to take.

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II. Agricultural Development in Tamil Nadu

Paddy and other crops

The paddy farmer has completed the kuruvai sowing which is good from the point of the plentiful south west monsoon rains received in all districts. Also the Mettur reservoir was full in over a decade which will be needed by the second, samba crop. The fact that Karnataka has refused to honour the interim award of the tribunal to give Tamil Nadu 205 tmcft of water during the year has dashed the farmers hopes and restricted the kharif area of cultivation. Another factor which affected him and particularly the small and marginal farmer who are the majority outside the Thanjavur district is the uncertainty over the price he has to pay for fertilisers. The union government has indicated an allocation of Rs. 53.97 crores towards the fertiliser subsidy under the dual pricing system. The state government could not make a decision on the Tamil Nadu price for the fertiliser for the small and marginal farmer because it was awaiting the union guidelines. This has caused difficulties for the small and marginal farmers who have had to depend on the private dealers, resulting in black marketing in fertilisers

sale to him. Because of the early rains in some districts like Tirunelveli and Salem, most of them paid higher prices due to the delay in the issue of union guidelines. Farmers are demanding an increasing quantity of fertilisers because of the good rains and the Mettur flow in the case of Thanjavur and Tiruchirapalli districts. Nearly 64 per cent of cooperative membership is the small marginal farmers category and they have to pay the pre budget prices. The cooperatives have made available 10,000 tonnes of fertilisers to their members in Thanjavur district, in Tiruchi 3000 tonnes, Salem 34,000 tonnes, Chinglepattu 13,000 tonnes. Following the union government decision to raise the minimum support price for paddy by Rs. 25 per quintal, with the 3 varieties — average, fine and super fine fetching Rs. 230, Rs. 240 and Rs. 250 per quintal, coarse cereals also with a hike of Rs. 25 fetching the farmers Rs. 205 per quintal and Rs. 210 for maize (because of the increase of Rs. 30) and groundnut Rs 645 for shelled and Rs. 800 for unshelled, which was a Rs. 65 increase. The farmers in the state are receiving these higher prices, which increased the subsidy of the government and which the government tried to meet by raising also the issue price, on which it, had to retreat because of the public outcry. The government's policy note to the legislature states that 21.10 lakh hectares under paddy will yield 62.50 lakh tonnes this year compared to last year's 57 lakh tonnes grown over 18 75 lakh hectares. The National Watershed Programme which is to cover 89,000 hectares in 14 districts in the state in the VIII Plan, is starting in Dharmapuri or where it is being expanded and restructured to increase the growth of rainfed agriculture covering 64 blocks. The other districts and blocks for the operation are being identified. It is important that the farmers be associated with the programme from the planning stage and then be made responsible for its effective implementation, so that the defect of a government programme which is not regarded by the farmers as their own is avoided.

Research results

Of the 42 reports received from mid August to September end, five groups are of immediate interest as they relate to practices which the farmers can straightaway adopt. The first group are six reports on rice ; starting with the report from the agricultural college and research institute, Madurai which has evolved a rice variety ACM 16 which tolerates cold conditions average 11-12, resisting grain discoloration, leaf blast, neck blast, sheath rot and brown leaf spot and is tolerant of galmidge and brown plant hopper which affects the paddy field in cold conditions : followed by a report from the Bangalore organic farm on ecological ways of growing rice — planting over a spacing of 17.5 cm by 17.5 cm, raising the nursery in a well puddled bed of 12 metres by 6 metres, tying the moist seeds in gunny sack till they sprout in 3 days which should be evenly sown with a sheet of water, using spray fluid to keep off pests, manually weeded and making the organic farming sustainable, farm grown green leaf manure and plant based insecticides forming the main inputs with a high yield : a report from the Vemban rice centre on using rice ratooning to increase production of banana, sugarcane and cotton : and a report from IRRI, Philippines on the biological control of pests as in the predation of the brown plant hopper by the mind bug as a naturally occuring biocontrol agent : from the Vemban

research centre on the 4 measures that the farmers should take to control rice blast : *and from the TN rice research* station Aduthurai on how iron deficiency in rice plants can be arrested. Second there are a group of 11 reports on various other cereals, the results of which the farmer can now use : from the Vridachalam research centre on how the growing of inter crop ward off groundnut pests, from the Tirupathi college of Veterinary science how to avoid groundnut poisoning in cattle by drawing the straw and using fungicidies, from the Kovilpatti research station on the 4 management practices to be followed to counter the leaf miner, *surulpochi*, in groundnuts, from CIAE, Bhopal on the control of flea beetles on soyabean, from the Hyderabad agricultural university of the use of soyabean waste to increase biogas production, from the Gulbarga research station on the 8 stages involving integrated control of pod borer, from TNAU, Coimbatore using fish meal powder as part to kill the sorghum shootfly, from the Hyderabad College of agriculture on the means to be used for the vegetative propogation of cashew, from Bijapur research institute on the BSS-1 and A1 developed by it for use as high yielding chick pea, from ICRISAT, Hyderabad on ICPH-8 that it has developed as a high yielding pigeon pea cultivation 4858, Norman, Prabhata, ICPL 95 and 96, and Plant A-10 which are resistant to pulses Namathod, from the Bhavanagar research station on how sorghum production can be increased by increasing its ratooning ability through extra application of fertiliser and maintaining the plant population, *and finally from the Vemban research* centre on how to apply zinc material to the soil to make up for its zinc deficiency. A third group on fruits comes from first UAS Dharwad on the 4 measures to be used to control the mango hopper pest, from the plantation crops research centre, Kasargod on the 3 hybrids that should be used to grow drought resistant hybrid coconuts, from the research station, Cuddalore on trashing in sugarcane to boost its *yield 7-10 per cent, from* UAS, Bangalore on the means of controlling the pomegranite fruit borer, and from TNAU station, Tiruchi on the 10 steps to take to keep cane pests — the lapid oprerous larvae borer at bay. Fourth, the research station, Yercaud reports on how the use of biofertiliser — Azospirillem acts as effective biofertiliser — arecanut, *banana, cashew, cocoa, rubber and* cardamom and Sakthi sugars, Coimbatore reports on growing cluster beans in drylands. The fifth group relates to the cattle farmer, starting with the report from the Division of Pathology IVRI, Izatnagar, on the means of avoiding or controlling Hohne's disease in cattle, sheep, goats and wild ruminants; from the Veterinary College, Bidar on the means of minimising the leakage of egg shells by selecting breeds in layer strains bred for both egg number and shell thickness, having only 3 birds in a 25 cm x 25 cm cage and avoiding stress and distribution, and from the TN veterinary animal sciences university, Madras on halting Anthrax spread in cattle, sheep, goats, buffaloes, pigs and birds by following 9 stages starting with not opening the carcas till the blood smear examination shows no sign of anthrox and ending with drainage or moist pasture of land.

Plantation Crops

Tea exports in 1990-91 to 23 countries of 195 million kg earned Rs. 1074.81 crores and in 1991-92 the target is a

modest 200 million kg earning Rs. 1100 crores. With a production target of 735 million kg, export of 200 million kg is rather modest. Hence the commerce minister's call at the annual UPASI meeting for a fresh thrust to exports of tea, coffee and the plantation sector generally is understandable. As of now there is a sense of stagnancy in these sectors. In tea, India takes second place to Sri Lanka and is likely to yield the second place to China. In coffee the unit value of Rs. 27.31 per kg, is at that level for over a year, though the quantity sold was 1 lakh tonnes. The Gulf upheavel and the political changes in the Soviet Union and East Europe have introduced a note of uncertainty in the industry. (The Soviet Union accounts for 55 per cent of our total tea earnings). The government wants the industry to shift its emphasis from "exports to production" to production for exports, that is to say to reserve assured qualities of plantation produce for importing countries. But substantial changes are also required on the government side. Tea which was 6 per cent of all exports in 1980-81 is down to 3 per cent in 1989-90 due to the policy followed for this sector. The government has (to preserve its vote banks) conserved — tea supplies for domestic consumption at the cost of exports (See Vol XVIII p36), now a surplus has to be generated to meet both growing domestic consumption and exports. This calls for technological and administrative changes. For the surplus to be sold in the world market, it would have to be produced at cost levels comparable with the rest of the world. This calls for considerable quality improvements. Now with the devaluation and the favourable position of the plantation industry with regard to exim scrips, it should be possible to evolve a consistent surplus of quality produce and market it in a cost effective manner. For this the present way in which the plantation industry has been organised —with quite independent boards, each having its own policy following its original charter, so that there is either too much control as in coffee or no control on quality as in the case of spices which cost us our cardamom exports market. Hence there is need for a common set of guidelines for all the boards with the agreed aim of this role of encouraging and expanding exports. Some boards like tea and spices will involve expanding their marketing role. For others like coffee, the board's functioning may have to be reduced, allowing planters to market their products if they choose to do so. The usual argument that this will be against the interests of the small growers is not true. The board is there to protect his interest. And the government's call of producing for exports needs to be supplemented by a reorganisation of the plantation industry boards.

Rubber

The prospect of a marginal surplus in rubber emerging with a production of 3.65 lakh tonnes in 1991—92 has caused a fall and subsequent stagnation of prices at Rs. 21.15 a kg. It is time now for the Rubber Board to work with users for an agreement on total production, and its use for different purposes and for the function of the board on quality and pricing of rubber, particularly as the forecast for a rubber surplus for the first time in the 70s and 80s.

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III. Industrial Development in Tamil Nadu

The September review of the major events in the state's industrial development must begin with the reiteration and expansion in some parts of the industrial policy referred to earlier (see vol XV p369, 370, 385 & 486) and the incorporation of some important aspects of the union government's new industrial policy referred to in the last 2 issues of the Bulletin. The statement of the policy made to the Assembly aims at the identification of the direction of state's industrial growth and the areas to be encouraged to grow. The policy incorporates suitable incentives, infrastructure creation and other supportive measures to move along the desired direction. The three fold aims of the policy will be to use the industries to generate income and employment, to encourage exports and to increase industrial productivity. The strategy for this policy is the protection and strengthening of existing industries, particularly those in which the state has a comparative advantage and has built up a tradition in them, and the identification of the thrust areas for growth, for which adequate power should be developed and in which the private sector will be associated. The strategy also includes the policy on privatisation and disinvestment, involving limiting the government's future investment to the core areas and utilising its equity as a catalytic role in industrial promotion. In this connection the government states that out of the 56 public sector units, 15 made a loss of Rs. 140 crores, 15 state transport corporation made a loss of Rs. 56.7 crores, 26 made a profit of Rs. 67 crores, resulting in a net aggregate loss of Rs. 130 crores. The government had invested Rs. 600 crores in the public sector and got no returns. So the government under the policy, will : a) allow profit making units to continue, b) those making losses but with signs of recovery to be taken up for remedial action, c) those beyond salvage and which private entrepreneurs want to merge with their units will be allowed to do so and d) those which are a drain on the public exchequer will be closed down. To execute the public investment policy, an Infrastructure Development Corporation is to be set up with Rs 4 crores from the state budget and growth centres set up in different parts of the state to achieve balanced dispersal of industry. Basic amenities in existing industrial centres like Tiruppur, Hosur, Manali and infrastructural development with the help of the union government will be undertaken in export centres like Vaniyambadi, Dindigul and Tiruppur. The private sector is to be encouraged to harness non conventional sources of energy and to help develop infrastructure like roads. As part of the policy, the state capital subsidy for new industries set up in the most backward taluks is being raised from 15 to 20 per cent of the investment upto a maximum of Rs. 20 lakhs, new units employing more than 30 per cent women workers will be eligible for an additional capital subsidy of 5 per cent upto a maximum of Rs. 5 lakhs. The activation of the single window clearance at district and state levels is reiterated, 10 industrial sheds with all basic amenities are to be provided in each of 107 backward taluks of the state. TIDCO is to give preference to backward taluks in locating joint sector and associated sector projects, in 1991-92, 15,000 registered small scale sector units are to be set up to generate employment

for 1.66 lakh persons as part of a 5 year Plan to set up 1 lakh small and tiny units, women are to be given industrial sheds, with 30 per cent of sheds and plots being reserved for women entrepreneurs, for whom a special entrepreneur development programme is to be initiated benefitting this year 800 persons. The announcement in the policy to exempt some small units from the Factories Act was implemented at this session itself through the issue of new guidelines under which units employing 25 persons instead of 10 for power based units upto now and 50 workers instead of 20 for units not using power, as well as those units using power upto 10 hp are exempted from the factories Act provision. Also an Industrial Guidance and Export Promotion Bureau of Tamil Nadu is to be set up to give information and service to entrepreneurs : the bureau is to identify new export areas and make available escort service to prospective entrepreneurs. Also a State Research and Development institute for fashion and design for textile garments and leather industries is to be set up The industrial policy extension including its new features are far reaching and impressive. In particular its emphasis of developing the backward taluks, linking the setting of new small industries to employment generation, the encouragment of women workers and entrepreneurs and the provision for privatisation and disinvestment are important new Initratives With the state governments' resource crunch the policy of disinvestment which has long been advocated by the Bulletin now set forth as policy is welcomed in the hope that the government will help the trade unions to understand and accept it. One consequence of it is to hand over some of the state industries (now being run badly to the private sector) and if that is what is meant by privatisation it should also be welcomed and supported The 4 point policy towards the public sector is on the right lines. There are however some reservations on the high sounding large figures about the number of sheds, number of plots, number of estates etc. that are set forth which make one doubtful whether with the state resource position these can be achieved. If they are meant to indicate the good intention of government and as a popular public relations stand, it should be so understood, and not allow its non realisation to affect the morale of the people and industrialists. On the whole however, industry in the state and in districts have received a shot in the arm, which is badly needed.

Now turning to the actual industrial development from mid August to September end, there is the usual balance short with its plus and minus events.

On the plus side, the *first* development has just been noted and that is the issue of *guidelines exempting* certain categories of small and tiny industries from the *Factories Act*. *Second*, the Atomic Energy Commission states that the Rs. 75 crores 1000 tonnes capacity *Titanium plant* (the first in the country) is being set up at Palayamkayal, 100 acres have been acquired for the plant and the preliminary engineering works are underway. The plant will begin operation in 1994–95 meeting the annual demand of 870 tonnes. *Third*, the Geological Survey of India has located massive deposits of *molybedium*. A moderate sized deposit of 1.6 million tonnes has been located at Velampuri in Dharmapuri district. There is an immense deposit below it This metal with its many uses, particularly mixed with ordinary steel to make it special steel open up large production and employment avenues for the state and country.

Fourth, the government has decided to delete the stipulation that potential *granite entrepreneurs* should have some manufacturing facilities to obtain a lease from quarrying. This is a long standing demand of the industry and will promote its accelerated growth which the private sector will ensure. *Fifth, Aruna Sugars* announced that it is diversifying into the hotel industry. It aims at serving non five star hotels and will set up a chain of 8 four star hotels in the four southern states. Aruna Sugars has also undertaken an extensive Rs. 20 crores modernisation cum expansion programme, funded from internal resources. This has increased its sugar production capacity from 4000 tonnes to 5000 tonnes a day. *Sixth, the NTC* subsidiaries in the state made a net profit of more than Rs. 15 crores during 1990—91. NTC states as a result it will be placing more emphasis on individual mills which are the profit centres, rather than dealing with subsidiaries as a whole. *Seventh, Madras Refineries (MRL)* has decided to set up new facilities for LPG separation from associated gas at a cost of Rs. 40 crores. This project is being set up along with MRL distilleries unit in Thanjavur to refine Narimanam crude with a capacity of 0.5 million tonnes at a cost of Rs 120 crores. To meet the problems caused by importing increased amount of crude, MRL is also expanding its capacity by another 3 million tonnes per annum at a cost of Rs. 1100 crores to be funded by internal resources plus equity. The company's preparation for the aromatics project is proceeding apace, though the decision on the project has still not been made by the union government, while its cost has now escalated to Rs. 1725 crores against the original Rs. 1356 crores (see vol XX p 507). The project to expand the lube capacity from 1.4 lakh tonnes to 2.7 lakh tonnes at a cost of Rs. 165 crores has been approved by the union government and is underway. The project to process half a million tonne annually of cauvery crude, just referred to, will be commissioned in July 1992. The company's joint venture for manufacturing lube additives in the name of Indian Additives is progressing well, its phase comprising blending and succinimide plants being completed by May 1992. A boiler and turbine of 20 MW capacity at cost of Rs. 44 crores in being installed. The effluent treatment plant costing Rs 18.75 crores is being completed in December of this year. The sewage treatement plant with a reverse osmosis unit having a capacity of 2 5 mgd at a cost of Rs. 19.50 has been completed and is working to provide the plant with water. The scheme to manufacture food grade hexans with a capacity of 25,000 tonnes pa at a cost of Rs. 8.80 crores is also being completed in December. It plans another large Rs. 1100 crores project expanding its hydro cracking unit which will be presented to the government for clearance and targets to start it by 1993. Its funding will be from the public in deposits and debentures. MRL has also two small projects plus a Rs 110 crores plant to produce benzene at 54000 tonnes per annum from Rs.38.3 crores propylene plant with a capacity of 17,000-34000 TPA. This MRLs diversified production and actirities and high turnover of Rs. 1640 crores in 1990-91 are impressive not being held back by the delay in the aromatic project approval. *Eighth, Spic Fine Chemicals* producing the country's first reolite based phosphate from detergent reports that it plans to expand its manufacturing and widen its consumer products. It is moving into manufacturing import substitution materials like textile and leather chemicals and adhesives in addition to its current down

stream project producing reolite and detergent, out of LAB available from Tamil Nadu Petro products. *Ninth, engineering exports* particularly machinery, machine tools and parts, electrical machinery apparatus, appliances and supplies and transport equipment and parts from Tamil Nadu and the southern states after a period of stagnation in the 80s have now started picking up. But despite the vast range of engineering goods produced in the state only about 20 products account for 6.5 per cent of its export and so there is scope for an increasing contribution from the states. *Tenth, BHEL* has manufactured the first nuclear power machine of 500 MW for Tarapore. It has supplied 235 MW machines for Madras, Narora and Kakrapara. It has orders for 2 nuclear power machines of 235 MW for Kaiga and Rajasthan. Thus BHEL has emerged as one of the four companies in the world possessing frontline technologies in power and associated fields. *Eleventh,* the Rs. 315 crores expansion of *Madras Fertilisers,* increasing its capacity by 40 per cent and extending its econmic life by 15 years has been cleared by the union government. The Plants energy consumption will decline by 41 per cent. Its expansion will be achieved without any additional feedstock, naphtha and water. Its omissions will be considerably reduced, making it more environment friendly. *Twelfth,* in the *Handloom field,* 50,000 handlooms are proposed to be modernised at a cost of Rs. 42.30 crores. With aid from NABARD 37,500 old type handloom are to be converted into power looms over a 10 year period. For this year, an initial allocation of Rs. 30 lakhs, with finance by NABARD has been made. There is some question about the soundness of the decision to transform handlooms into powerlooms. Despite the withdrawal of CCS (see Vol XXI p389), exports of handlooms have made a record earning of Rs. 50.51 crores in July. In the first 4 months April-July 1991-92, handloom exports were Rs. 155.37 crores which is a 30 per cent more than that of the previous year. *Thirteenth, Madras Fertilisers* (MFL) has submitted a plan to the union government for setting up a Rs. 1080 crores ammonia, urea, DPAP complex using the gas in the cauvery basin. It is also bidding for an ammonium nitro phosphate plant at Chidambaram district in association with TIDCO, at a cost of Rs. 450 crores. Given the shortage of nitrogen and phosphates in the South, the company's project is much needed. The union government has cleared MFLs plan to revamp its plant at a cost of Rs. 315 crores. *Fourteenth, an industrial estate* for the manufacture of readymade garments, all handloom fabrics, is coming up at Kakkalur in Chinglepattu—MGR district. SIDCO has offered 100 acres for the project and in the first phase 50 acres are being developed. *Fifteenth, SIDCO* which has identified potential growth centres as stated in the policy referred to earlier, is constructing 200 work sheds during the VIII Plan. It is constructing the sheds at a cost of Rs. 8 crores and is selling 50 developed plots at a cost of Rs. 1 crore. The first industrial estates are being established in Periyar, Ramanathapuram, Madurai and Chengalpattu—MGR district. *Sixteenth, the Simpson group* which accounts for 90 per cent of the turnover of exports of the Amalgamations group is moving fast, in its output of engine demanded by TAFE. Addison is producing cutting tools and India Pistons widening its pistons with a new unit at Maraimalainagar. *Seventeenth,* another company doing well is *Spencers* whose gross

sales are reported at Rs. 70.67 crores for 1990-91—a 14 per cent increase over the previous year. Its exports earning are Rs. 13.92 crores, being a 80 per cent increase. It proposes to open a large super market in Madras and is becoming a diversified consumer products company. *Finally*, the Rs. 1.4 crores TN Industrial Explosives Limited reports being commissioned at September end. With the Rs. 1.55 crores small India cartridging system commissioned in April, the company's turnover for the year is expected to be Rs. 7 crores plus Rs. 14.82 crores on the first company. Despite its losses of Rs. 6.65 crores due to rise in new materials prices, its exports are increasing.

On the negative side, *first the Aromatic project* to be set up jointly by MRL and SPIC is as noted earlier still hanging fire. One unfortunate feature is that announcements are being made periodically that it has been approved, only to be contradicted soon after. Meanwhile its cost has risen as noted earlier by over 40 per cent and every day of delay will send up its cost. *Second*, the B and C mills is still closed as from April 1991. The bone of contention is the shifting of the processing unit which the trade union opposes. This should be settled now, if the plant is not to become sick and client for BIFR. *Third*, the *Standard Motor Product Limited* (SMPL) is still closed—and has been for more than 2 years. BIFR has with IDBI worked out a package, but IOB is unable to provide the additional working capital which is rather a large amount. IOB is already in the red to the extent of Rs. 26 crores on account of SMPL and is not able to pay more funds. Behind all this is the question of the viability of the enterprise. Will its demand be adequate to make it a viable firm? Possibly if it concentrates on producing LCVs it can function viably.

Fourth, mills in the state are really facing cotton shortage, resulting in some mills reducing their spindle activity, while others face the prospect of closing down. The consumption of cotton can be reduced by blending it with vicose. The cotton situation needs careful scrutiny, as this shortage and the increasing of export of cotton seem contradictory. The demand for import of cotton is not sustainable, given our shortage of foreign exchange. *Fifth*, TIDCO's plan to disinvest in *TANCEM* (Tamil Nadu Cement Corporation) is a correct decision and is in line with the policy outlined at the start. This is a case where there are a number of attractive bids from private companies TANCEM can be converted into a joint sector company at the first stage, with the state pulling out gradually and completely. The problem in not giving affect to this disinvestment decision is the opposition of the Trade Unions, office staff and in this case even the management which originally made the decision. Larsen and Toubro, India Cements, ACC, Madras Cements, Chettinad Cements are some of the private sector companies which have made a bid for the company. In this case, the government should combine its capacity for explaining to the trade unions the stakes involved and be firm with the management which is flaunting the ephemeral profit of Rs. 1 crore made in the first 4 months of 1991—92. This is no ground for changing the disinvestment decision. *Sixth*, *Tuticorin Alkali Chemicals*, a joint sector undertaking, has informed BIFR that it is a potentially sick unit, with its accumulated losses in the last 2 years, 1989-90 and 1990-91, having crossed Rs. 6.6 crores which is more than 50 per cent of its authorised capital. The company has been in trouble due to the very low retention prices allowed by the union for its ammonium chloride products. SPIC which has taken

over its management has presented a Rs. 160 crore modernisation programme. This capital should come from equity and public deposits and not from government. The government should allow its price to reach the market level under the dual pricing scheme. *Seventh,* the government has presented a *Rs. 400 crore tyre unit* project in Kanyakumari to the Assembly. This is now an old story and has been repeated for 10 years, with no effect in terms of actual follow up. The project itself needs reexamination by an outside expert group. It is suspected of being basically unviable. *Finally* as noted earlier, the project to convert *37,500 handlooms to powerlooms* has aroused stout apposition from the state's handloom society, with serious questions raised as to its employment effect on the families to the weavers. It might be wise to set up a commission in which the handloom society is represented to examine and clarify the issues.

Thus in September a major gain for the state is the major aspects of the Industrial Policy presented to the Assembly and the many positive developments which overshadow the negative elements. What needs watching is the strong pressures being exerted to start projects when the state's coffers are empty, and the private sector itself is strapped for cash.

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IV. Education Science and Health

Educational reforms

The government announced in the Assembly that education will be made compulsory upto standard 5 and will launch from 1992-93 and be implemented in a phased manner over five years. The grant of Rs. 1 crore to each panchayat union under the self sufficiency scheme will help construct 1000 primary school buildings. Under the school improvement conference plan, an additional Rs. 1.5 crore is to be mobilised in 3 districts for construction of school buildings. The drive to eradicate illiteracy is being undertaken under 2 programmes. First the Total Literacy Programme now in operation in 4 districts Pudukottai, Periyar, Kanyakumari and Pasumpon Muthuramalingam under which all adults in the age group 15-35 are being made literate is being extended to 3 more districts. The other districts will be covered next year. Second under the programme of Mass Action for National Regeneration (MANAR) universities and colleges are incorporating literacy teaching as part of the curriculum. 4 models have been developed — one by Anna University which has developed a package of 3 summer courses each of 6 week duration — STR-1, STR-2, STR-3 which may be exchanged for any electives : a second by the Madras Christian College with its 2 types of courses leading to preference for admission to post graduate courses and exemption from some electives : a third by Avinashilingam Institute for Home Science and Higher Education for women where student and faculty

engage themselves in the illiteracy campaign; and a fourth by Tamil Nadu Agricultural University in its village stay programme which gives direct exposure to the rural setting and life through the stay of one month in the village by students and staff and in which adult literacy is being incorporated. These models are being followed by the other 7 universities and the 24 autonomous colleges to start with in the state. At the University level, the government announced in the Assembly that a council for higher education as required in the National Policy on Education and recommended by UGC is being set up. Also an advisory council for education to suggest ways of improving educational standards in the state is being set up. A graduate course in computer science is to be offered in all 54 government arts and science colleges in a phased manner starting this year with 8 colleges. The UGC has set up 23 subject panels in social, natural, engineering, and management sciences to advise commission on the improvement of standards. It has set up 27 curriculum development centres to review existing curricula and recommend improvements and updating. There are some lacks—the quality of the COSEP and COHSSIP is low, summer institute have been discontinued, the follow up actions on some parts of NPE is delayed and rural colleges are being neglected.

Technical education

Polytechnics in the state are being upgraded using the Rs. 76 crore World Bank help for renewing their equipment. A scheme to upgrade technical education in the state at a cost of Rs. 400 crores is being presented to the World Bank for help. The setting up of a university of fine arts and film technology and the establishment of a film city at the Film and TV Institute, Adyar was announced by the government in the Assembly. Anna University reports that it is introducing a bachelor's degree programme to train a new batch of professionals specialising in biotechnology. It will meet the needs of industries engaged in biotechnology and will be a combined B Tech/M Tech course to be launched from 1992-93.

Science

UNCTAD warns that India and other developing countries may fall further behind technological development if agreement is reached on the trade related intellectual property rights (TRIP) now under discussion in the Uruguay rounds. The concentration there is on the static aspects of international property rights (IPR), completely neglecting the dynamic aspects relating to technology transfer and diffusion. India is under tremendous US pressure over IPR, with a US demand that its existing legislation concerning IPR be reviewed. The government feels that the recommendations of the Interdepartmental committee on colour TV net works and dish antennae to amend the copy right act to provide for distribution of programmes through cable TV as a distinct category of copy right has become dated. This is in the context of the proposal to offer telecasting and broadcasting rights to public corporations and allow them to compete with PrasarBharathi. India's second operational remote sensing satellite – IRS-IB was put into orbit on August 29 at the Baikonur cosmodrome of the Soviet Union. The satellite is placed in the planned sun synchronous orbit and is fully operational. The India Petro Chemical Corporation (IPCL) reports that it has developed in collaboration with the Indian Institute of

Petroleum, Dehra Dun a Gasoline Reforming catylist, which has been put to commercial use by Madras Refineries. The Limetallic catalyst will be used in the field of refining and petro chemical packages and will save the country substantial foreign exchange. CECRI, Karaikudi reports developing a new process called 'rust converting primer' which avoids steps such as surface preparation and phosphate treatment. To produce it commercially the minimum economic capacity is 30 tonnes per annum at a total project cost of Rs. 4.35 lakhs. All the plant, machinery, raw materials are available in the country.

Health

The Ministry of Health reports that it is making steady efforts to achieve the goal of health care for all and achieving a net reproduction rate of unity by the turn of the century. During 1990-91, preventive and promotive aspects of health services were augmented (by September 1990, 20,552 primary health centres and 1,30, 512 sub centres were functioning), and action for greater child survival accelerated and quality of services further improved to make them more responsive to peoples' needs. The World Bank aided India Population Project—V now covering Madras and environment is being extended to more districts. It aims at improving mother and child care services and the project is to be completed by June 30, 1992.

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V. Employment and Labour Relations

The employment picture is rather grim. For this year the Jawahar Rozgar Yojana (JRY) has fixed a target of 900 million mandays of work to be provided. On the base of each unemployed persons getting 150 days employment, the target means that 6 million people will be provided employment. (The number of unemployed is in the region of 20-25 million). To make matters worse because of the resource crunch, the expenditure by the union government has been frozen at Rs. 2100 crores per annum and given the inflationary pressure, this means that the employment generation expenditure has been decreasing. Further as in most states minimum wages are being hiked and as one of the conditions of JRY is that those employed under JRY must be paid the minimum wages of the state, the coverage of the scheme shrinks still further. The state governments face an even more parlous financial situation than the Union, some of them have not been able to pay their salary bills and so there can be no relief from the Union source. And given the sharp rise in the price of food this year, the JRY wage will not cover the workers' food bill. There is need for the union government to economise on other items like defence outlays, DAs etc and increase the JRY allotment. There is also leakage mainly

in material purchases and employment of contractors. To stop this schemes with higher labour cost and lower material cost should be preferred and the use of contractors by the states should be penalised. These may be some ways of making the limited and contracting JRY funds go a little further. Given the large buffer stock of food grains atleast for this year should there not be a food for work programme, using a small part of this stock ? The data on unemployment presented by the Labour Bureau shows an unsatisfactory situation for all states including Tamil Nadu. Tamil Nadu is among 3 states which restructured (laid off) workers during April 1991 in 1 unit affecting 26 workers, it is one among 4 states which has laid off workers in April 1991 involving 1 unit during April affecting 486 workers and 6 units during part of the month affecting 851 workers, aggregating 9594 mandays lost, — the second largest among states, in terms of industries in Tamil Nadu, textile unit laid off 486 workers, 1 non metallic unit laid off 13 workers, 1 basic metal unit laid off 16 workers, 1 maintenance machinery unit laid off 45 workers involving 1170 mandays lost, and 2 repair services units laid off 291 workers involving 7566 mandays lost, in terms of causes for the lay off, 3 units laid off 74 workers involving 1924 mandays lost because of financial stringency, 1 unit laid off 484 workers because of raw material shortage, 1 unit laid off 270 workers (7020 mandays lost) because of shortage of power and 1 unit laid off 21 workers (546 mandays lost because of breakdown of machinery. The data from the National Employment Service is equally disquieting; of the 851 employment exchanges in the country, up from 660 in 1981, though the percentage increase in their live register has declined from 10.1 in 1981 to 5.7 in 1990 (mainly due to the higher base in 1991), and there were three fortunate years 1984, 1987, and 1988 when the numbers on the live registers were stagnant. On the other hand the grim reality is the growing increase in the number of those on the live register from 178.38 lakh in 1981 to 346.31 lakhs in 1990, recording a 100 per cent increase in less than 10 years. The number of vacancies notified by the exchange fell from 8.96 lakhs in 1981 to 4.90 laks in 1990, and the number of placements decreased from 5.04 lakh in 1981 to 2.64 lakh in 1990. As the law makes it obligatory for all employers in the public sector and those in the private sector who are engaged in non agricultural activities and employment 25 or more workers to notify the exchange on every vacancy and invite to submit candidates for it. The question arises whether the vacancies arising in these establishments have shrunk over the last decade, which means that development is not generating employment. There may be some cases of employers not reporting vacancies, and of employment exchanges not being able to effect proper placements, but the main reason is that the production activity is not employment oriented. The same is true for the apprentice training programme, where 37,153 identified seats for apprentices were unutilised in 1990. Is it true then that there are more training facilities than people willing or eligible to use them. Thus both in training and employment generation with its falling rate and declining number of placements by the Exchanges, the picture is increasingly disturbing. On conditions of labour, Parliament was informed by the Ministry of Labour that there are nearly 14 crore child labourers in the under 14 age group

in the country. This is the record of the 1981 census which should be updated when the 1991 census data on it is available. The child labour act bans child labour below the age of 14 in factories, mines and in various hazardous occupations. The tragedy at Srivilliputhur highlights the need to enforce these provisions strictly.

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VI. Other Items

UNESCO Literacy Jury

The Unesco world Literacy Jury met in Paris on August 19, 20 & 21 and examined 34 submissions from government and non governmental organisation and decided to award the prizes for excellence in literacy achievement in 1990, the Nedesa Krupskaya Prize (USSR) to Pakistan, the International Reading Association Award (US) to Japan, the Noma Prize (Japan) to the District of Burdwan India, the Iraq prize to Venezula and the King Sejong Prize (South Korea) to Ghana The Medals and Certificate as well as the 11 honourable mentions for outstanding literacy works were presented on September 9, for the International Literacy Day, (which this year fell on a Sunday) at a public meeting in Paris.

NABARD

A national seminar for rural bank branch managers on rural credit was organised by NABARD in cooperation with IOB. The managers were trained in methods of approving the request in rural areas by farmers and artisans for credit, the terms on which it should be given and the means of assuring the repayment.

SRC and TNBCE

There was a meeting of the Governing Council of SRC when the enlarged function and budget for 1991 for the centre were reviewed and approved. The centre is now largely concentrating on providing literacy materials for the 4 districts which are running the Total Literacy Programme and training its workers. TNBCE executive committee which also met reviewed the progress in planning for the annual conference which is to be held at the Annamalai University as the original site of Virudhunagar did not have enough accomodation. Also there was a review of its selection procedures for choosing printers and its financial disbursment rules which were changed and the secretary made responsible for the whole system.

National Council for Industrial Harmony

A meeting of the council was held at the end of September. It concentrated its attention mainly on the implications for industrial relations of the New Industrial Policy which had been announced and analysed in the previous

issues of the bulletin. One of the key elements of the policy — the right of exit and exit opportunities, has been omitted from the policy because of the opposition of trade unions. It was agreed that there was need for the trade unions to study and work on the new industrial policy and accept the exit element under certain agreed conditions. It was decided to run a national seminar on the New Industrial Policy and its impact on industrial relations before the end of the year in New Delhi in order to be sure to have the Prime Minister and the top management and trade union leaders to inaugurate and participate in the proceedings.

IIC

The India International Centre's Economic Affairs Group held a meeting of its Advisory Committee in late September at which the current programme of panel discussions, seminars and publications were reviewed and noted with satisfaction. One suggestion made was to decide the subjects for panels or seminars a little more in relation to the audience interest. The committee then made its recommendations on the subjects for panel discussions and seminars for 1992. On this basis, the chairman, coordinator and secretary have established the 1992 list of monthly panel discussions and five seminars for 1992. There was the final panel discussion for the year on the technology options and applications for the VIII Plan where the consensus was that there had to be a synthesis of the traditional and innovative with an eye on the employment aspects.

TN State Council for Science and Technology

There was the quarterly meeting of the executive council of the Tamil Nadu State Council for Science and Technology which apart from reviewing the current research projects, their evaluation and follow up by user ministry or firms, examined 3 new research projects in line with the thrust areas for the council which had been decided. The council also decided to continue with the plan for a state seminar with the new state planning commission secretary on the thrust areas in Science and Technology for the state. The council also approved the modified plan proposals for the VIII Plan now to run from 1992-93 to 1997-98. It also approved the budget for 1992-93 and the Annual Plan for that year to be forwarded to the State Planning Commission.

October Development Seminar

The paper for the October Seminar "Industrial Sickness in Tamil Nadu" by S. Swaminathan along with a synthesis of the discussion on the paper at the seminar appears as the first article.

Second article

A note on 'The Economic Crisis and how to meet it' appears as the second article.

Book review

The review by Prof C. T. Kurien of the book — Poverty Inequality and Prices in Rural India appears in the book review section.

M I D S News

Dr. Paul Appasamy attended a celebration of "World Habitat Day-1991" organised by the U.N. Centre for Human Settlements Information Dissemination office on 14th October, 1991 at Madras and spoke on "Urban Services in Madras".

He also gave a lecture on "Urbanisation and Pollution in Madras" to a group of American students who are spending a Semester in India, at the Madras Christian College on 18th October.

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Dr. A. Vaidyanathan has been appointed Chairman of a Committee to review Problems of Irrigation Pricing in the Planning Commission.

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Dr. Tushaar Shah, Director, IRMA, Anand delivered a lecture on "Aspects of Groundwater Irrigation and Groundwater Marketing" in the Seminar room on 21st October.

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Dr. C. B. Padmanabhan has been appointed as Senior Social Scientist to head the Adult Education Evaluation Unit of our Institute with effect from 1st November, 1991.

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Sick Industry — A Public Policy Perspective

by

S. Swaminathan

Vice-President Economic Affairs

CHEMPLAST, MADRAS

The purpose of this paper is three-fold. The first is to stimulate thinking on the need for a sustainable public policy matrix in relation to industrial units which become a drain on the community's savings. The second is to provide a diagnostic generalisation on how and why industrial enterprises degenerate. The third purpose of this presentation is to inquire into the modes of public intervention hitherto resorted to and seek to evaluate them in the light of a cost-benefit trade-off which could be economically viable and socially just. Although the paper focusses on industrial sickness in the Private Sector, the perspective presented here could hopefully be extended, mutatis mutandis, to public sector units caught in the cobwebs of non-performance.

Section I

Towards general theory of industrial sickness

Business failures, have always been an organic part of industrial metabolism in the capitalist economies. The system of private property and the law of contracts which have provided the institutional foundation for capitalism have also generated a sub-system, the law of bankruptcy which seeks to reconcile business failures of individual and groups of individuals called "Partnership Firms" with the need for continuity of the business system as a whole. The economic principle underlying bankruptcy law and its corporate counterpart—law of liquidation contained in Company Law—is that a business entity proven as a commercial failure and as being beyond revival should be terminated through transparent legal means rather than being kept going through the wasteful process of diversion of the community's savings. In this sense the legal framework of business in India already recognizes an Exit Policy although the enforcement of the policy has virtually been nullified by the law governing Industrial Disputes.

The concept of industrial sickness (as opposed to business failure) is perhaps a typical Indian contribution to the technical terminology. Sickness is not dissolution even though it could be a prelude of the collapse of the business unit. Sickness could range from the failure of a business unit to take-off (of even to

reach the break-even point) to the stage at which it has lost all (the entire net worth — both capital and reserves). Incipient sickness in its rudimentary form is manifested by continuing cash losses and in its substantial content by persistent failure of the business to recover operating costs and depreciation. When does the sickness of an industrial unit give rise to legitimate public concern?

According to Section 23 of the Sick Industrial Companies (Special Provisions) Act 1985 (SICA), an industrial company attracts the provisions on the new law if its accumulated losses have already resulted in erosion of fifty per cent or more of its peak net worth during the last five financial years. This is only the concept of a "potentially sick company". What is a "sick industrial company" is defined in Section 3 (0) of SICA. An industrial company if, at the end of any financial year, it has accumulated losses equal to or exceeding its entire net worth and if it has also suffered cash losses in such financial year and the financial year immediately preceding such financial year. This definition not only covers moribund companies (ie. those which have practically come to a standst where operations are concerned) as well as those whose operations are financed entirely by external sources and which merely result in the accumulation of finished inventory, saleable or otherwise. The point to emphasize here is that SICA and its institutional creature, the Board for Industrial and Financial Reconstruction (BIFR) provide, at least intentionally, the mechanism for rehabilitation/exit for companies which are terminally sick. It is precisely this question — whether terminally sick industrial units can at all be rehabilitated in a credible manner—which constituted the enigma in public policy.

Industrial sickness — a diagnostic model

The symptoms of industrial sickness need to be distinguished from its etiology (the causes and malignancies leading to the sickness). Identification of the symptoms of industrial sickness generally turns on financial ratio analysis pertaining to both liquidity and profitability. Altman's technique of Multiple Discriminant Analysis (MDA) which is a predictive instrument for corporate bankruptcy in the US, involves five variables, viz (1) working capital (2) retained earnings (3) earnings before interest and tax (EBIT) (4) market value of equity and (5) sales.

The Tandon Committee, 1975, put the focus on "erosion of profitability" as the leading symptom followed by decline in liquidity, delayed payment to creditors and eventually to default.

Causes of industrial sickness

A lack of congruence between the firm's anticipations regarding customers and the markets expectations relating to the firm is an underlying theme in the study of industrial sickness. Internal mis-matches between production management and funding/marketing or between corporate plans and the personnel function very often breed operational inadequacies and thereby lead to sickness. An aggravation of internal mismanagement by adversities generated by the external environment (for example, government policy in the areas of administered price, exim and taxation, credit policy of the RBI), is a well-known feature of the configuration of industrial sickness. Unscrupulous managements sucking a company dry through unjustifiable appropriations towards managerial

remuneration and the 'expense account" are not unknown either. The complaint that the limited liability facility operates in favour of the "scorched earth" misdeeds of entrepreneur-promoters is commonplace. A comprehensive (almost encyclopaedic) cotalogue of "academic causes" of industrial sickness, can be found in the report of the Committee "to examine the legal and other difficulties faced by banks and financial institutions in rehabilitation of sick industrial undertakings......" (The Tiwari Committee of RBI, 1981-84). Among the internal causes listed by the Committee, the following may be highlighted :

1) Inadequate technical know-how
2) Locational disadvantage
3) Outdated production process
4) Uneconomic size of project
5) High cost of inputs
6) Overestimation of demand
7) Time and cost overruns
8) Poor quality control
9) Poor capacity utilisation
10) Excessively high wage structure
11) Overmanaging
12) Defective pricing policy
13) Faulty costing
14) Liberal dividend policy
15) Siphoning away of funds
16) Adverse debt-equity ratio
17) Excessive expenditure on R & D
18) Dissension within the management
19) Incompetent management
20) Dishonest management

In the Committee's perception, the external causes of industrial sickness range from infrastructural bottlnecks, haphazardness of government policies and market constraints to extraneous factors such as vagaries of the political situation and the multiplicity of labour unions.

Consequences of industrial sickness

A general theory of industrial sickness needs to reckon with the following economic and social costs involved in perpetuating sick units (or hospitalising them beyond the point of no return :

1) Inefficient allocation of scarce savings
2) Erosion of prospective investments in new productive ventures
3) Decline in return on investments at the macro level
4) Higher tax rates
5) Idle capacity-labour and capital
6) Losses sustained by banks and financial institutions
7) Preserving employment in sick units at the cost of employment for new entrants in the labour market.
8) Failure to upgrade/reequip labour for effective participation in new technology.
9) Lowering of morale in industry, banking and other services
10) Politicisation of industrial decisions with consequent impairment of the investment climate
11) Retardation of economic growth
12) Rigidities in the labour market

Methods of dealing with sick industrial units

The idea of a remedy for industrial sickness is a concession to the humanist

spirit of survival rather than a logical response to the commercial failure proclaimed by a sick unit. The one exception or so it appears to be is turnaround management which is not really a remedy but the infusion of a new managerial strategy very often on the basis of a management take-over. What then are the possibilities of ensuring the revival of a sick industrial unit? The Tiwari Committee envisaged seven routes to revival of sick units :

1) Change or take-over of management through reconstitution of the Board of Directors, or appointment of key personnel by the financial institutions and for banks
2) Reconstruction — restructuring of capital and liabilities
3) Merger/amalgamation
4) Transfer on lease
5) Sale as running concern
6) Take over by purchase of shares by a healthy unit
7) Fast-track liquidation on the basis of a summary procedure without recourse to the provisions of the Companies Act.

Section 2

The spread of industrial sickness—A long itudinal approach

The industrial down-trend which started in the mid-sixties with the decline in capacity utilisation and in new investment should perhaps be regarded as the progenitor of industrial sickness on a considerable scale. The Mid-Term Appraisal of the Fourth-Year Plan (February 1972) did, in fact, allude to the closure of units in several industries, mainly textile and engineering industries as also coal and sugar. "Among the reasons accounting for closures", said the Planning Commission, were "obsolete machinery and technology, uneconomic size, unsatisfactory industrial relations, raw material shortages, demand constraints, financial crisis and mismanagement".

The varying magnitude of industrial sickness is brought out in table A.

An aspect of the mixed economy regime has been the curious fact that the incidence of sickness in industry is being daalt with at an aggregate level by the Reserve Bank of India (Sick Industrial Undertaking Cell) and the Board for Industrial Reconstruction (BIFR). In a market-propelled economy, industrial sickness would be a matter for remedial action by the constituents of the uorporate concern — management, labour and creditors. Is it possible that it is this approach which has resulted in a situation where public policy instruments are constrained to deal with industrial sickness not in its incipient stages but in its terminal juncture ? Approaching the problem in its aggregate form, the RBI has evidently found the task monitoring industrial sickness extremely cumbersome and time consuming. The data on industrial sickness available with the RBI is itself more than 20 months removed from current realities. As of now, the data available, as set out in tables A and B, relate to December 1988 at the outer limit. Even with the relatively inadequate data which the RBI has published, there is an inescapable pointer to the grave deterioration in the sickness scenario. Between 1980 and 1988, sick units, of all sizes have proliferated by nearly 10 times. SSI sick units which represented 94% of the total incidence of industrial sickness, 1980, have sprawled to a 99%

TABLE A

Industrial Sickness 1980 to 1988

Year DEC-31	Large units		Medium units		Small scale units		Total	
	Number	Outstanding Bank credit Rs. crores	Number	Outstanding Bank credit Rs. crores	Number	Outstanding Bank credit Rs. crores	Number	Outstanding Bank credit Rs. crores
1980	409	1324.46	992	178.42	28149	305.77	24550	1808.66
1981	422	1478.84	994	187.63	25342	359.07	26758	2025.54
1982	444	1790.60	1178	225.76	58551	568.97	60173	2585.33
1983	491	2014.33	1256	357.97	78363	728.99	80110	3101.29
1984	545	2330.12	1287	428.58	91450	879 69	93282	3638.39
1985	637	2980.24	1186	220.02	117783	1070.67	119606	4270.93
1986	714	3287.02	1250	281.37	145776	1306.10	147740	4874.49
1987	1837	4459.09	NA	NA	204259	1797.31	206098	6256.40
1988	2011	5564.30	NA	NA	240573	2141.00	242584	7705.30

SOURCE : CMIE

presence in the overall profile of industrial sickness in 1988. The number of medium units which have been caught in the maelstrom of distress is not known beyond 1986. This may be due to the lacuna in the monitoring system followed by the RBI. To some extent, the problem is compounded by the fact that medium-sized units cover a bewildering range of capital investment of Rs 35 lakhs at one end and Rs. 20 crores at the other. If corporate acquisition trends are what one should go by, sick medium units would seem to be going through a process of restructuring, largely on the basis of take-overs by other medium units This is one area of industrial sickness which seems to have escaped critical enquiry, both by the RBI and by researchers in the area of industrial sickness.

Table A also establishes what is widely perceived as the a-symmetry in the policy response to industrial sickness. Large units with capital investments of Rs. 20 crores and above, are numerically not even 1% of the total incidence of sickness. But in terms of locked-up bank credit, they represent 72% of the total bank credit outstanding from all sick units, as of December 1988. Although employment data are not available with regard to sick units, it is a general presumption that the SSI units have caused larger unemployment than what labour leaders often approched as the potential unemployment that would be caused by restructuring of the more than 2000 large units which are "non performing assets" of the country.

TABLE B

Viability Status of Sick Units 1985 & 1988

	31 DECEMBER 1985				31 DECEMBER 1988			
	Number	% Share	Amount Outstanding Rs. crores	% Share	Number	% Share	Amount Outstanding Rs. crores	% Share
Units found viables	8569	7.2	1987.33	46.5	13712	5.7	2891.75	37.5
Units found non-viable	99062	82.8	1790.73	41.9	224969	92.7	3417.88	44.4
Units for which viability was not determined	11975	10.0	492.87	11.6	3903	1.6	1395 67	18.1
	119606	100.0	4270.93	100.0	242584	100.0	7705.30	100.0

SOURCE : CMIE

Table B is a sombre reminder that the search for rehabilitation packages for sick units, is by and large, a process of hitting the blind alley. The percentage of sick units found non-viable has risen from 82.8% in 1985 to 92.7% in 1988; it is increasingly being found that the percentage of sick industrial units which are capable of being turned around, is getting reduced from 7.2% in 1985 to 5.7% in 1988. The only redeeming feature of the situation seems to be that the number of units hanging in the air (without their viability status

being determined) has come down from 11975 in 1985 (10% of the total) to 3903 in 1988 (representing 1.6% of the total). An alarming fact of the situation is that, as of 1988, bank credit outstanding of units which are found non-viable is of the order of about Rs. 3400 crores, ie., 44% of the total bank credit outstanding of all sick units, Rs. 7705 crores. The implication obviously is that amount of bank credit outstanding is, for all practical purposes, an erosion of working funds of the banking system, which is unlikely to be redeemed unless liquidation of these units is proceeded with.

TABLE C

Number of Large Scale Sick Industrial Units and Amount of outstanding credit from Scheduled Commercial Banks : 1985 to 1988

(Rs. Crores)

	December 1985		December 1986		December 1987		June 1988	
	No. of Units	Amount out-standing	No. of Units	Amount out-standing	No. of Units	Amount out-standing	No. of Units	Amount out-standing
MAJOR STATES	623	2942.38	697	3243 35	1044	2676.59	1093	2886.40
Andhra Pradesh	37	103.10	44	126.09	70	119.09	69	128.06
Assam	2	6.53	7	34.89	4	7.30	4	6.64
Bihar	17	44.51	17	50.28	29	56.66	30	75.26
Gujarat	62	301.51	68	323.21	131	356.57	134	402.79
Haryana	16	42.14	17	50.95	33	50.66	34	53.36
Karnataka	33	163.44	43	220.52	62	127.43	76	153.18
Kerala	16	129.19	20	142 35	27	124.75	33	112.49
Madhya Pradesh	22	89.46	26	98 58	36	87,59	36	91.31
Maharastra	146	835.62	161	893.83	252	832.61	255	866.69
Orissa	7	35.26	10	29.55	9	33.15	12	36.52
Punjab	4	6.14	6	17.80	21	12.73	22	14.14
Rajasthan	13	40.14	11	40.33	44	80.40	43	93.11
Tamil Nadu	50	189.64	53	184.08	107	228.90	112	229.92
Uttar Pradesh	66	279.37	68	251.03	68	136.37	70	155.33
West Bengal	132	676.33	146	779.81	151	422.38	163	467.59
All India	637	2980.24	714	3287.02	1119	2801.79	1172	3025.88

SOURCE CMIE

The Incidence of sickness among large units have increased between December 1985 and June 1988. Of the 1172 sick units, in June 1988, Maharashtra, West Bengal, Gujarat, Tamilnadu, Karnataka and Uttar Pradesh represent 69%. Between 1985 and 1988, Maharastra and West Bengal have continued to be the leading states where industrial sickness is concened; but the deterioration in the situation seems to have been worse in Tamilnadu and Gujarat. The increase in large sick units in Gujarat during the period, has been by 116% whereas in Tamilnadu it has been of the order of 124%.

TABLE D

Industry-wise incidence of sickness in the large and medium sector

Industry-wise non-SSI Sick units and amount outstanding : June 1988
(Units in Numbers : Amount outstanding : Rs. Crores)

	Textiles		Engineering		Chemicals		Paper		Total		% Share	
	Units	Amount	Units	Amount	Units	Amount	Units	Amount	Units	Amount	Units	Amount
MAJOR STATES	220	980.02	241	677.21	115	162.45	78	155.78	1089	2879.76	92.9	95.2
Maharastra	57	352.66	70	233.05	32	61.83	10	11.08	255	866.69	21.8	28.6
West Bengal	13	26.29	41	168.86	7	12.29	10	27.81	163	467.59	13.9	15.5
Gujarat	55	266.24	28	55.30	12	9.01	9	29.93	134	402.79	11.4	13.3
Tamil Nadu	22	90.51	25	53.20	15	15.93	8	8.14	114	237.58	9.7	7.9
Uttar Pradesh	10	52.15	10	28 55	8	7.27	9	9.23	70	155.33	6.0	5.1
Karnataka	12	38.83	16	28.95	7	3.99	8	12.00	75	145.61	6.4	4 8
Andhra Pradesh	4	19.68	14	18.81	12	22.60	7	20.47	68	127.97	5 8	4.2
Kerala	5	18.65	5	46.20	6	9.80			33	112.49	2.8	3.7
Rajasthan	16	33.21	3	2.18	3	3.25	6	6.49	43	93.11	3.7	3.1
Madhya Pradesh	8	61.89	7	5.35	4	2 45	3	1.55	36	91.31	3.1	3.0
Bihar	3	3.06	3	8.68	2	9.53	3	13.19	30	75.26	2.6	2.5
Haryana	7	10.65	13	26 01	2	0.68	2	1.61	34	53.37	2.9	1.8
Orissa	1	4.57	2	0.57	3	2 83	1	9.91	12	36.52	1.0	1.2
Punjab	7	1.63	4	1.50	2	0.99	2	4.37	22	14.14	1.9	0.5
Assam			1	0.29			3	6.35	4	6.64	0.3	0.2
Total	227	996.64	259	710.24	122	166.01	97	182.91	1172	3025.88	100.0	100.0
% To Total	19.4	32.9	22.1	23.5	10.4	5.5	8.3	6.0	100.0	100 0		

SOURCE : CMIE

Textiles, Engineering, Chemicals and Paper together represent 61 2% of the total number of sick units in this sector, in June, 1988 accounting for 67.9% of the outstanding bank credit. Among the textile units plauged by sickness, Maharashtra and Gujarat account for 49% of the total number and for 62% of the outstanding bank credit. In the Engineerlng industry, Maharashtra, West Bengal, Gujarat and Tamilnadu account for 63% of the total number of sick units, and for 72% of the outstanding bank credit. In the Chemicals industry, sickness is distributed mainly over 5 states namely Maharashtra, Tamil Nadu, Gujarat, Andhra Pradesh and Uttar Pradesh. These 5 states account for 65% of the total number of sick units in this sector and 70% of the outstanding bank credit. In the paper industry 7 states—Maharashtra, West Bengal, Gujarat, Uttar Pradesh, Tamil Nadu, Karnataka and Andhra Pradesh account for 63% of the total incidence of sickness and 64% of the total outstanding bank credit.

TABLE E

Industry-wise Non-SSI Weak units and Amount outstanding : June 1988
(Units in numbers : Amount outstanding Rs. Crores)

	Textiles		Engineering		Sugar		Paper		Chemicals		Total		%Share to Total	
	Units	Amount	Units	Amount	Units	Amount	Units	Amount	Units	Amount	Units	Amount	Units	Amount
MAJOR STATES	160	518.20	139	350.39	40	113.24	19	107.15	82	85.7	699	1851.87	94.1	96.4
Maharashtra	47	210.04	37	80.12	3	0.38	5	10.09	17	20.19	156	451.16	21.0	23.5
West Bengal	10	24.96	21	101.50			2	7.86	9	19.69	112	367.44	15.1	1.91
Uttar Pradesh	18	113.27	7	38.14	29	102.16	2	2.25	1	2.66	72	291.32	9.7	15.2
Karnataka	8	16.06	12	39.82			2	70.94	5	2.38	40	179.37	3.4	9.3
Gujarat	32	81.31	10	22 27			3	1.27	5	2.48	63	120.60	8.5	6.3
Kerala	5	4.28	7	11.82			1	11.48	3	8.61	29	117.45	3.9	6.1
Tamil Nadu	9	19.06	10	6.67	2	3.61	1	0.84	4	2.22	48	68.23	6.5	3.6
Andhra Pradesh	6	5.14	12	20.81	1	0.62	2	2.12	7	6.78	52	61.18	7.0	3 2
Orissa	6	18.30	7	5.66	2	1.41	1	0.30	2	0.86	24	38.47	3.2	2.0
Haryana	2	7.96	8	16.74					2	5.25	15	32.59	2.0	1.7
Madhya Pradesh	9	9.59	1	0.91	2	0.61			3	7.57	22	27.37	3.0	1.4
Bihar	1	1.04	3	3.37	2	4.45					11	19.02	1.5	1.0
Rajasthan	4	2.95	2	1.59					2	3.93	15	15.25	2.0	0.8
Punjab	3	4.24	2	0.97							10	13.35	1.3	0.7
Total	171	539.08	145	356.53	40	113.24	20	107.63	65	93.20	743.0	1921.52	100.0	100.0
% To Total	23.0	28.1	19.5	18.6	5.4	5.9	2.7	5.6	8.7	4.9	100.0	100.0		

SOURCE : CMIE

Incipient Sickness

The RBI has, in the wake of the enactment of SICA in 1985, started monitoring incipient sickness. The concept of "weak units" is being used for the purpose of such monitoring. A weak industrial unit is defined as one which has accumulated losses equal to or exceeding 50% of its peak networth in the immediately preceding five accounting years and which has a current ratio of less than 1 : 1 and which has suffered a cash loss in the immediately preceding accounting year.

Table E sets out the data available regarding incipient sick units alias "weak units", in the major states.

743 units are in the category of weak units all over the country (compared to 1172 sick units). Maharashtra, West Bengal, Uttar Pradesh, Gujarat, Andhra Pradesh, Tamil Nadu and Karnataka, account for 73% of the total number of weak units. Will these units degenerate further to become eligible for therapy at the hands of BIFR or will they be enabled to achieve a turn—around is a question which is very much open.

Section 3

Public policy perceptions on Industrial sickness

Industrial units created by entrepreneurial enterprise are susceptible to vicissitudes whether of the internal or external environment. Risk-bearing - the forte of the entrepreneur—is confined to the contractual constituents in an enterprise in a free market economy. But in a heavily controlled economy mandated by a combination of socio-economic objectives and political priorities and compulsions risk-bearing is taken beyond tha conventional contractual domain of an enterprise. To put it differently, risk-bearing itself tends to be socialised, with governments, quasi-governmental institutions (in the financial sector) and the community of tax-payers, increasingly sharing the costs of industrial inefficiency and failure.

Why should industrial failures be masked, for long, in the guise of attempts to revive sick units? The economic rationale for sustaining sick units is expressed in different ways. Preserving employment in a labour-surplus economy is the strongest argument in support of the status quo in sick units. Should not the issue be seen for what it really is — the willingness to make unviable or technologically obsolete industrial units remain a continuing drain on the nation's scarce savings? To the extent that working capital is not recycled in sick units, new investments and the concomitant additions to jobs in the economy are impeded. Protection of current unproductive employment and promotion of additional employment (and perhaps for a relatively higher - skilled new entrants to the job market) become conflicting objectives of public policy, with the probability that the weight of political expediency combined with a static concept of social justice (preserving jobs and the status quo of sickness along with the rigidities in the labour market) will overwhelm long - term economic considerations.

Mind-boggling as the dimension of registered unemployment is (32 millions as compared with the total employment in the organised sector of 27 millions), a further slippage in employment in the organised sector through rationalisation/retrenchment as a part of rehabilitation of sick industrial units will cause undue

hardship for labour. What has been the traditional public response to this prospect of distress for sections of the industrial working class? The machinery of the Industries (Development and Regulation) Act 1951—IDRA — providing for takeover/nationalisation of sick units defying the process of restructuring, has been used till about 1982 without much success. The legacy of this policy is represented by 55 public sector enterprises (of which 28 are in West Bengal) which continue to be in the red. It is superfluous to add that the policy of state take-over of sick private sector units has only made for the aggravation of the maladies of public sector industry.

If neither closure nor state take-over has been found to be a sustainable policy response in the face of the spreading cancer of industrial sickness, a third course has obviously had to be invented. The concept of revival/rehabilitation through an ordered process of shared liquidation of claims and augmentation of funds — of management, labour, state governments and the financial institutions — has found expression through the BIFR created under SICA. Over the last four years, the BIFR has handled 1382 references (from the private corporate sector pertaining to the non-SSI sick units). Of these references, 352 were rejected at the threshold of inquiry and 1020 references registered as being fit for processing. Of these 954 cases have reached the stage of first hearing. What about the record of the BIFR, on the whole? 175 cases ruled out as being "not maintainable", 124 cases approved for "as is where is" state, 182 revival cases "floating" and 120 cases for winding up — This is the BIFR tally. Inadequacy of statutory powers is the grievance of BIFR. Or is it a faulty design of the BIFR to blame, in the sense that the concept of retrieval of a sick industrial unit through quasi - judicial process is itself patently contrary to the legal system — the constitution, the law of contracts and the law of industrial disputes? At another level, is the strategy implicit in the BIFR modalities consistent with what is fashionably called the market - friendly economy?

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Summary of Discussion

The Chairman began the proceedings and mentioned that the concept of 'Industrial Sickness' was similar to medical terminology but the entreprenurial calibre was very crucial. Yet the root cause and the symptom of industrial sickness was a complex and difficult question which did not find easy answers and solutions.

The author clarified at the outset the purpose of his academic exercise with a three-fold objective viz., stimulate thinking on the need for a sustainable Public Policy matrix in relation to industrial units which are a drain on the community's savings; provide a diagnostic generalisation on how and why industrial enterprises degenerate and finally to enquire into the modes of public intervention hitherto resorted to and seek to evaluate them in the light of cost benefit trade-off which would be economically viable and socially just.

In the process he brought the whole analysis within the framework of a general theory of Industrial Sickness where business failures were often seen as an organic part of industrial metabolism in the capitalist economies. In this context the author was highly critical of the economic principle underlying bankruptcy law and its corporate counter part — law of liquidation contained in Company Law, of a business entity proven as commercial failure and as being beyond revival and suggested termination through transparent legal means than being kept going through the tradeful process of diversion of community savings. The author elucidated that Industrial Sickness as defined by Sick Industrial Companies Act 1985 (SICA) is one if at the end of any financial year, it has accumulated losses equal to/or exceeding its net worth and if it has also suffered cash losses in such financial year. It was the Board for Industrial and Financial Reconstruction (BIFR), the mechanism which rehabilitated companies that became sick.

The diagnostic model of industrial sickness according to the author is based on Altman's technique of Multiple Discriminant Analysis (MDA) and the variables comprised working capital, retained earnings, earnings before interest and tax, market value of equity and sales.

As to the causes of industrial sickness the author was very much concerned about the Tiwari Committee Report of RBI (1981-84) which highlighted 20 causes, the external causes of which range from infrastructure to bottlenecks, haphazardness of government policies

and market constraints to extraneous factors such as vagaries of political situation and the multiplicity of trade unions.

As a sequel to the diagnostic approach and causation factors he further added another 12 points to the consequences of industrial sickness and the Panacea in dealing with sick units which was based on the above report.

In the discussions that followed questions were raised on the Tiwari Committee report of causes for industrial sickness. It was pointed out whether legislation on exit policy was frustrated on the law of industrial disputes, if it was so then going to court was seen as a panacea to clarify the issue.

To the question whether there was any feasibility study to quantify the role of the causation factors as listed in the Tandon Committee the need for a study was emphasised. To another question it was clarified that the erroneous feasibility study was implicit in the Tiwari Committee report itself. He mentioned the lack of congruence between market failures, research, distribution, internal mismanagement on the one hand and the adversity due to the influence of the external environment.

On the question of a sick industrial unit allowed to be revived or die it was argued that no system under any particular ideology allowed it except in India where the concept of industry closure was inevitable when public authority demanded so.

It was also pointed out that the Industry could never be sick and it was the entrepreneurs who could go sick, if that was true then the whole exercise on sick industries would turn out to be a futile attempt.

Another view was that the entrepreneurial role was to bring all factors of production together. The judious mix in the production process also meant that labour as a factor of production in itself was different from others in as much as it involved legislation for labour. The entrepreneur had a social and moral obligation which involved a risk factor. The major part of industrial sickness involved merger and taken-overs by BIFR rather than with an intension of closing down units.

It was also pointed out that the very existence of firms was based on asymmetry of information but unfortunately in the Indian context the situation was made more complex due to government intervention. To the question of sustainence of sick industries being justified on the grounds of unemployment already existing in the country, it was pointed out that social security was a major concern, but the very fact of these industrial units not turning to be employment generating by itself was a matter of concern.

Another participant also raised the question of lack of any scientific method for analysis of Demand and Supply and feasibility studies based on appraisals for starting small scale units and the criteria for allocation of funds.

V. JACOB JOHN

The Economic Crises in the Country and the Actions it calls for.*

Consensus amounting to unanimity

There is a consensus amounting to unanimity in the country — among all political parties including the party forming the government, the entire business world, the academics, particularly the economists and social scientists, the man in the street—that the major issue facing the country and the government running the country is the all pervasive economic crisis. Every facet of the economy — apart from agricultural production (over the past 3 years) and the rate of industrial growth (also over the last 3 years)—is in the grip of very serious negative forces. This consensus amounting to unanimity about the grave economic crisis facing the country is important, because the way out and forward from the crisis will involve a hard and painful set of decisions for every one — for the government, for the corporate sector, for the farming community, for the citizen as both tax payer and consumer. The unanimity in the realisation that there is a crisis should lead not to unanimity in regard to the solutions and actions called for (because every group would have its preferred way forward based on its ideology and its interests), but a majority agreement on the difficult options facing the country and the decisions in favour of some of them.

This also means that every one has to be taken into confidence by the authority dealing with the crisis: the government - both in regard to the nature and componants of the crisis and the relieving actions to be taken in regard to them.

This calls for a wide popular understanding of our condition and participation in the proposals for dealing with it involves, the new parliament meeting as possible, certainly within the next 3-4 weeks, to review the crisis and actions to meet it - through the budget to be presented and through the Eighth Five Year Plan or atleast the Approach document to it, which will open up to all members of the parliament and every one else, the issues involved and the difficult solutions envisaged.

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*An article by Dr. Malcolm S. Adiseshiah for the Times Illustrated Weekly for the New Government June 25, 1990.

Quickly Present annual budget and Eighth Five Year Plan

It is imperative that in facing this economic crisis on which all of us are agreed, we avoid knee jerk reactions (reacting quickly in ad hoc manner to particular issues-), or dealing with problems, which are interconnected, in an isolated manner, or expecting quick results to the actions proposed. That is why the crisis and its resolution must be set within the frame of the annual budget (1991-92) and the Eighth Five Year Plan, which must reflect the crisis and its medium term aspects. This will ensure both that all aspects of every problem is attended to and that its relationship and effect on other problems are taken into account. For instance our permanent priority is to reduce poverty and inequality for which employment has to be increased and unemployment decreased, so that the income of the poor continues to be augmented. Nothing proposed on the crisis should worsen or slow down progress in these three areas.

Within the medium term frame of 2 to 3 years, there are various and varying time pressures that face the corrective actions to deal with the crisis.

Roll back prices

One such is the roll back in prices, where inflation has reached a point that it is biting into the low levels of living of both the poor majority and the lower middle classes, and is distorting the production net work of consumer goods and durables. Here action is called for in three ways. The first is to stop the further rise in prices of a select number of goods—those that enter the consumption basket or the poor and organise that these prices return to the pre 1990 levels, until when their price rise was an annual average 3 per cent. Second, there is need to increase the supply and the availability of these goods plus of some machine goods on which the production of consumer durables and non durables rests. Third, there is need for a heavy cut in money supply, primarily by decreasing the continuing inflow of Reserve Money. This calls for reduction in government's indebtedness to the Reserve Bank and other banks, as for every 1 Rupee created by the bank for the government Rs 3 are generated. This will also enable the lifting of the harsh overall uniform credit restrictions imposed on industry by banks on the directives of Reserve Bank For it is not bank credit to industry which fuels inflation, it is bank credit to government that does.

Cut government expenditures

For this there is need to reduce government expenditures, seen in the rate of the increase of government deficit, particularly the revenue deficit. This calls for a number of inter-related measures. First, the rate of increase of government's non-plan expenditures should be reduced starting with some 10 per cent for the balance of the current year, increasing to 25 per cent for the next year, and 50 per cent for the year following. This requires that a start should be made by reducing the rate of expansion of big government expenditures, of which the defence outlay is the first. When I was a member of parliament, I had pointed out that as a result of my study the defence outlay can be cut by 15 to 20 per cent (and certainly not allow it to increase year after year particularly on the side of defence imports which do not even appear in the DGCS & I import accounts) and that this can be done by cutting out the fat in the defence outlay

without any reduction in the efficiency of the defence forces or our defence preparedness. This will give atleast Rs 5000 crores now in reduced expenditure Second, there should be immediate freezing of all government appointments at existing levels and no filling of vacancies during the balance of this year and for the next year. This will give a saving of Rs. 3000 crores this year. Third, there should be a cut in subsidies — a) food subsidies which are used not for the poor but for the middle income well to do, so that subsidy reduction can be attained not by a direct cut on the subsidy but by ensuring that the subsidised PDS food rations are only for the poor b) the fertiliser subsidy which reduction will lead to a rise in the price of fertilisers which are used in the main by the large farmers and who can be compensated by allowing the price of their products — which are not for the poor—to rise; and c) the export subsidy whose reduction should be aimed at closing our wasteful offices abroad which have not contributed to any noticeable increase in our export trade. From this some Rs. 3000 crores can be saved this year, rising to Rs. 5000 crores next year And there are the every larger hidden subsidies — hidden because they appear as harmless support items in the budget — such as the budget support to the 80 90 loss making public sector enterprises, including the Delhi Transport Corporation, the Delhi Milk Supply, the enterprises listed year after year by the Bureau of Public Enterprises. The present crisis is an occasion which should be used to close the books on these units, by selling them and using their valuable land for fresh investments and for redeploying of the labour force, or merging with units for which they could be ancillaries. or just straight shutting them down. This will give a saving of Rs. 12,000 crores in a full year — all of which appears as separate items in the budget and for this year may give Rs. 6000 - 7000 crores This area is particularly important in the states sector where all their Electricity Boards, all Transport Corporations and irrigation water losses add up to over Rs. 25,000 crores a year. This will only indirectly help the crisis facing the Union government in so far as it (the Union) may not have to come to rescue of the states to meet their heavy annual deficits.

Increase government resources

The counterpart to the reduction of government expenditure and the narrowing of the fiscal deficit is to increase the government's financial resources. This involves maintaining the direct taxes and their surcharges at present levels, along with increasing the number of those paying income and wealth tax by bringing in all of the self employed professionals, most of whom are out of the income tax net. Similarly the Corporation tax should be made more progressive by ensuring that all large units pay the tax. At present over 100 of them are in the state of zero tax payment. There should be the start of an agricultural income tax for all large farmers who earn incomes above the income tax exemption limit. Agreement on this should be obtained at the National Development Council meeting next month as one small contribution from the states to deal with the economic crisis and reversing the rising trend of the fiscal deficit now at above 10 per cent of GNP. All this resource increase can be attained if a conscious decision is made by government to use the increased resource from direct taxes not for consumption purposes, but for

investment in the Plan. This will be possible also if the cut in non Plan expenditure proposed earlier is adopted.

Reduce Balance of Payments deficit

The balance of payment deficit has reached uneconomic proportions at Rs. 5000 - Rs. 6000 crores because of i) the trade deficit which this year is running at Rs. 13000 crores and ii) a sharp fall in invisibles - remittances, interest on invested capital, tourist earnings etc. The fist cause is within our control and calls for maintaining the compression of imports now under way, with particular reference to bulk imports, starting with POL, which calls for a policy of substitution and conservation on which unlike the industrial countries of Europe and America, we have not even made a start. Until the import cuts, which have been imposed and which will have to be continued for the VIII Plan are based on differential and differentiated policies for every major import item and not based on the present ad hoc. uniform criteria, the contribution of imports to our trade imbalance will continue and even more serious, will distort our production structure and system. The other and equally important medium term instrument to correct the balance of payment deficit is to expand exports, particularly of value added items as they also are domestic incomes and employment generating, such as items like garments and made ups, leather goods, software in which the country has a decided comparative advantage. These two instruments, imports compression and export expansion, will also affect the rate at which our debt servicing which has reached a post danger point of 32 per cent of export earnings, can be brought down this year to 25 per cent and next year to 20 per cent. In the meanwhile, debt servicing requires a further IMF loan.

Get IMF loan and cut foreign aid

The International Monetary Fund negotiations for a loan of upto $4 billion should be completed and the loan should be used both for immediate debt servicing purposes and as stand by credit. The conditionalities that will accompany this loan — damping down inflation, reducing the fiscal deficit, cutting government's non plan expenditures and reducing the balance of payments imbalance — are already provided for in this note as actions stemming from our own understanding of the economic crisis in which we are entangled and the consequent corrective actions that we need to take. There are three residual issues—unimpeded direct foreign investment into our economy, allowing market forces free planning in every area and devaluation of the Rupee —which should be discussed fully and freely with the IMF and negotiated to conform to positions which are in our interest. This large IMF loan should also be an occasion when we should cut back on so called aid—so called, because the aid is really a series of loans and mostly tied loans, and though in gross terms they seem large, in net terms (after payment of interest and the instalment of the principle of the bilateral loans) is small and diminishing. Hence the VIII Plan should go back to the principle set forth in the Draft V Plan — of "Zero net aid" — that is the foreign aid should only be to help in payment of interest and repayment of principal of the foreign loans, with nothing used or left for internal investment.

Expand the production structure, particularly of wage goods

Both the budget and Plan should be directed to increase agricultural production including fisheries and animal husbandry. Here the most disturbing element is the continued heavy reliance of all of agriculture and allied activities on the monsoon, making the economy and the solution of the economic crisis from the production point of view a gamble in the monsoons. Our investments this year and in the VIII Plan both in underground water and refining of brackish and sea water would begin to decrease our reliance on this gamble. Second, the development of our dry farming areas, covering 70 per cent of our agriculture, about which we eave been talking incessantly and not doing much, needs to be budgeted for this year and become a major part of the VIII Plan. Further agricultural prices policy should be so ordered as to promote the increased production of pulses and oil seeds, in part in irrigated areas, replacing the water guzzling sugarcane crop, which is also producing the so called sugarbarons in Maharashtra and UP.

On the manufacture production side, the budget incentives and the Plan investments should move away from capital intensive, imports demanding goods and services. The automobile sector is one such capital and import intensive sector and its reduction will not affect any one except the well to do classes, including the black marketeers. What needs to be developed fast is the village industries and the really small industries (not the benami ones) which are not only producers of wage goods but which are also employment generating. There is need for continued investment in the basic and capital goods sector to help production of wage goods on a mass scale. The counterpart of this increase of wage goods production is the change in the life style of the well to do classes. All of us, reading this note who belong to this group, will have to tighten our belts and cut back on our consumption and demand for capital and import intensive non necessaries. There is no escape from such cut backs in our consumption and living patterns. In the end both the control of inflation and the improvement of the well being, rather the reduction of the ill being, of the mass of our people depends on making available wage goods on a mass scale. That is the touchstone against which all that has been proposed in this note, to deal with the economic crisis in the country and the means of meeting, it should be judged.

Book Review

Poverty, Inequality and Prices in Rural India

Nikhilesh Bhattacharya, Dipankor Coondoo, Pradip Maiti and Robin Mukherjee

Sage Publishers, New Delhi, 1991, pp 236, Rs. 195.

The book is a welcome addition to the literature on poverty, especially rural poverty. Its contribution is two fold. First, there is a wealth of statistical information, most of which is taken from the several NSS Reports, but converted into comparable time series, covering a period from 1952-53 to 1983, i.e., NSS fourth to thirtyeighth rounds. Along with these are also given time series data such as the Average Consumer Price Index Number for Agricultural Labourers (ALCPI) for corresponding periods. Second, the book attempts an explanation of rural poverty taking into account rural production and prices as well as urban incomes. And on both these aspects the contribution of the book is commendable To pose the issues differently, the questions being examined are: How do price movements affect the rural poor? Do the poor and the rich confront different prices, and if so how do they influence their consumption baskets? Is there a relationship between changes in urban incomes and the conditions of the rural poor? The hypothesis being probed is that incremental incomes usually appear in the urban industrial centres and given the positive income elasticity of demand for food it results in an increase in the urban demand for food. This may, in turn, lead to an increase in the price of food grains (the supply response, even if it is positive, being lagged). Granted that the poor in the rural areas (agricultural labourers, for instance) are net buyers of food and that their wages and incomes are unlikely to increase as these changes take place, it is reasonable to assume that they will become worse off in real terms and their consumption is likely to fall.

Both the manner in which the authors (all of whom are Professors at the Indian Statistical Institute, Calcutta) have formulated their hypothesis and the way they process the data will be of special help to young researchers and hence I would like to draw attention to some of these aspects. Table 2.3 (a) makes use of price indices and the weights based on the NSS consumer expenditure enquiries to generate

price indices by fractile groups to test for price differentials. Tables 2.9 and 2.10 report respectively on 'Laspeyres-type and Paasche-typeprice indices for cereals, again based on NSS Consumer Expenditure Enquiries. Table 3 4 has Engel Ratios relating to food by fractile groups from NSS Round Four to Thirty eight. Chapter 5 shows how a theoretical model to present the hypothesis is developed. It also has a simple diagrammatic representation of how poverty ratios are derived from Lorenz Curves. Chapter 6 has an analysis of available data pertaining to selected States probing the hypothesis at a more disaggregated level.

The study does not lead to any surprising conclusions. Different groups in the economy pay different prices. For instance, people belonging to the upper decile groups paid a higher average price for cereals as compared to the poorer people indicating that there may be differences in the composition and quality of cereals consumed by different sections of the population. All decline groups experienced an approximately fivefold increase in food prices between 1954-55 and 1973-74, the upper decile groups experiencing a relatively larger rise than the lower ones But the rise in the "all commodity" index was much sharper for the poorer sections than for the richer ones.

As for poverty as much, it is seen that the growth in per capita cereal production would tend to reduce rural poverty. On the other hand, given the cereal output, any growth in per capita non-agricultural real income would tend to raise rural poverty. And the major conclusion: "Both the HC (head count) and Sen's index failed to show any clear time trend one could see only marked fluctuations in these indices over time. Broadly speaking, the incidence of rural poverty was observed to reach a peak during the mid-sixties and to decline fairly steadily thereafter until 1983, the last year for which data are available. However, it is possible that this decline is not statistically significant as the observations are small in number and the figures for the 32nd round are not entirely reliable. Further, as the HC value seldom fell below 40 per cent, one can infer that the bottom 40 per cent of India's rural population remained chronically poor", (p 185)

One aspect of the study may give rise to some misleading inferences. The model developed in Chapter 5 considers real incomes of the non-agricultural rural population and of the *entire* urban population to be determined outside it This is certainly a valid procedure. But it overlooks the fact that a significant component of those living in rural areas and coming below the poverty line consists of non-agricultural workers such as artisans and those engaged in house-hold industries. Similarly, among those who come below the poverty line in the counfry as a whole, a sizeable proportion is to be seen in the urban areas. The authors are not guilty of confusing these issues, but readers may be warned not to interpret the findings of the study as implying that non-agricultural activities and the urban sector are responsible for poverty of agricultural workers in the rural areas.

C. T. KURIEN

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